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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

IN RE NUTANIX, INC. SECURITIES
LITIGATION

Master File No. 5:19-cv-01651-WHO

Hon. William H. Orrick

CLASS ACTION

**CONSOLIDATED AMENDED
COMPLAINT FOR VIOLATIONS OF
THE FEDERAL SECURITIES LAWS**

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1 Lead Plaintiff Shimon Hedvat and plaintiff City of Miami Fire Fighters’ and Police Officers’
 2 Retirement Trust (“Plaintiffs”) bring this action against Nutanix, Inc. (“Nutanix” or the “Company”),
 3 Chief Executive Officer Dheeraj Pandey (“Pandey”), and Chief Financial Officer Duston M. Williams
 4 (“Williams”) pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the
 5 “Exchange Act”) and Rule 10b-5 promulgated thereunder on behalf of themselves and all other persons
 6 similarly situated who purchased or otherwise acquired Nutanix securities between November 30, 2017
 7 and May 30, 2019, inclusive (the “Class Period”), and were damaged thereby. In this Amended
 8 Complaint, Pandey and Williams are referred to as the “Individual Defendants.” Nutanix and the
 9 Individual Defendants are referred to as “Defendants.”

11 Plaintiffs allege the following based upon personal knowledge as to themselves and their own
 12 acts, and upon information and belief as to all other matters. Plaintiffs’ information and belief is based
 13 on the investigation of their undersigned Lead Counsel, which included, among other things, review and
 14 analysis of: (i) Nutanix’s public filings with the U.S. Securities and Exchange Commission (“SEC”);
 15 (ii) Nutanix’s other public statements, including press releases and investor conference calls; (iii)
 16 interviews with former employees of Nutanix; (iv) reports of securities and financial analysts, news
 17 articles, and other commentary and analysis concerning Nutanix and the industry in which it operates;
 18 and (v) court filings. Lead Counsel’s investigation into the matters alleged herein is continuing, and
 19 many relevant facts are known only to, or are exclusively within, the custody or control of the
 20 Defendants. Plaintiffs believe that substantial additional evidentiary support will exist for the allegations
 21 set forth herein after a reasonable opportunity for discovery.

24 **I. NATURE OF THE ACTION**

25 1. This securities fraud class action arises from Defendants’ intentional concealment of the
 26 Company’s depleting sales pipeline that dried up during the Class Period due to the loss of business
 27 from Dell, Inc. (“Dell”), its most important business partner, as well as Defendants’ conscious decision
 28 to reallocate funds away from critical sales and marketing used to generate new sales leads. Meanwhile,

1 Defendants unloaded over 704,500 shares of their personal holdings of Nutanix stock at artificially
2 inflated prices for proceeds of **over \$30.5 million** during the Class Period.

3 2. Nutanix purports to be a cloud computing software company headquartered in San Jose,
4 California. The Company is known for pioneering its “core” hyper-converged infrastructure (“HCI”)
5 software technology, which combines components of data center computing (server, storage, and
6 virtualization software) into a single machine. HCI technology at its core enables the building up and
7 scaling out of systems using servers as building blocks without the need for individual specialists.
8

9 3. Nutanix customers have the option to either buy the Company’s HCI enterprise software
10 and deploy it on a variety of qualified hardware platforms, or to purchase the software pre-installed on
11 hardware—through one of the Company’s original equipment manufacturer (“OEM”) partners or on the
12 Nutanix-branded NX hardware line.
13

14 4. The Company’s ability to generate revenue growth from new customers is dependent
15 upon its ability to obtain sales leads. Nutanix obtains sales leads and, ultimately, new customers in two
16 ways. First, Nutanix engages in internal lead generation activities, such as Company-sponsored
17 marketing events and advertising. The success of Nutanix’s internal lead generation according to its
18 public filings is reliant upon the Company “**increasing** investment in sales and marketing.”¹ Second,
19 Nutanix obtains sales leads from its OEM partners who market the sale of Nutanix software packaged
20 on their hardware products.
21

22 5. At the beginning of the Class Period, Nutanix’s largest and most important OEM was
23 Dell. In 2016, Dell acquired VMware (Nutanix’s biggest rival) making Dell also a direct competitor of
24 Nutanix throughout the Class Period. According to former Nutanix employees, as of the beginning of
25 the Class Period, Dell provided Nutanix with at least **40%, or nearly half** of its overall qualified sales
26 leads.
27

28 _____
¹ All emphasis herein is added unless otherwise indicated.

6. Despite the critical importance of lead generation, unbeknownst to investors, Nutanix secretly decided as part of the Company’s “planning process” not to invest in lead generation in fiscal 2018 and, instead, keep spending flat while the Company reallocated funds budgeted for lead generation to engineering in order to accelerate the launch of Nutanix’s new Xi Cloud Services product.²

7. While Nutanix had developed *private* cloud networks through operating systems that run on a customer’s own hardware as described above, Xi was targeted to rival Amazon’s Amazon Web Services (“AWS”) and Microsoft’s Azure on the *public* cloud. Xi was necessary for Nutanix to remain competitive with VMware because customers were increasingly migrating to the public cloud and AWS has an exclusive partnership with VMware to provide its Software-Defined Data Center software on the AWS cloud. Indeed, market analysts recognized in early 2018 that Xi “w[ould] be critical to Nutanix’s long-run success.”

8. According to confidential witnesses, starting in the summer of 2017, Dell began “really pushing” VMware products and throughout the remainder of 2017, Dell was providing Nutanix with fewer and fewer new sales leads. Confidential witnesses stated that throughout the Class Period the situation with Dell continually “got worse” as Dell took more aggressive steps to push its own VMware, which caused “a lot of contention between Dell and Nutanix.”

9. Confidential witnesses confirmed that by the start of 2018, Dell had changed the compensation structure for its salesforce to incentivize them to only sell VMware products such that Dell was no longer providing Nutanix with *any* new sales leads—material information known by Nutanix during the Class Period but concealed from the Class.

² Nutanix utilizes an unconventional fiscal calendar, such that: Q1 extends from August 1 through October 31, Q2 extends from November 1 through January 31, Q3 extends from February 1 through April 30, and Q4 extends from May 1 through July 31. Throughout this complaint, Plaintiffs identify certain time periods or quarters as “fiscal” to refer to Nutanix’s fiscal calendar. Where Plaintiffs identify other time periods or quarters as “calendar” they mean time periods or quarters as would ordinarily occur in a calendar beginning on January 1 and ending on December 31.

1 10. As a result of Nutanix's quickly deteriorating partnership with Dell, and Dell
2 consequently not providing Nutanix with any new sales leads, the Company needed to shift its focus so
3 Nutanix would not need to rely as much on Dell. In that vein, Defendants announced that starting in
4 fiscal 2018, Nutanix would be shifting its focus to become a software-only company selling products
5 such as Xi that could transition back and forth between the *public* and private cloud, using a subscription-
6 based model, rather than a license model.

7
8 11. To conceal the negative impact of declining sales from Dell, on March 1, 2018, Nutanix
9 announced that it would no longer be breaking out sales from Dell in its financial reporting.

10 12. By April or May 2018 (if not earlier), Nutanix's sales leads were, according to
11 confidential witnesses, "*pretty dry*" and it was "*very obvious*" the pipeline was in trouble. Nutanix's
12 depleted pipeline was reflected in the Company's internal Salesforce.com system, which reported on the
13 sales pipeline and status of all new deals, among other metrics. According to confidential witnesses, the
14 Individual Defendants had direct access to, and would have received weekly pipeline reports from, the
15 Salesforce.com system. Thus, Defendants knew by April or May 2018 (and likely much sooner) that
16 Nutanix's sales pipeline was materially depleted.

17
18 13. Moreover, Defendants were aware that Nutanix's pipeline was drying up because sales
19 personnel expressed concerns about the depleted pipeline and Dell not providing Nutanix with any new
20 sales leads at quarterly All-Hands meetings throughout calendar 2018 attended by Defendants Pandey
21 and Williams.

22
23 14. In order to meet quarterly forecasts and hide Nutanix's declining sales and pipeline from
24 investors, Nutanix engaged in the misleading practice of "pulling in" orders that were scheduled to close
25 in a future period into the current quarter. One witness explained that by pulling in orders, it meant that
26 the ensuing quarter would be depleted of orders in the pipeline and thus the same thing would have to
27 be done in the following quarter. Nutanix sales personnel referred to this as "draining the swamp."
28

1 Inevitably, Nutanix hit the point when the Company's customers had "over-procured" and there was
2 very little, if any, pipeline left to pull in.

3 15. Confidential sources stated that in a desperate attempt to close deals and generate
4 revenue, throughout calendar 2018 Nutanix began offering steep discounts to vendors who sold Nutanix
5 instead of VMware products of as much as 75-80% for hardware and 90% for software.

6 16. According to witnesses, the situation at Nutanix was so dire in fiscal 2018 and 2019 that
7 senior management routinely communicated "loud and clear" that Nutanix needed more revenue. Every
8 quarter, senior sales management reviewed every prospective deal that had been entered into the
9 Salesforce.com system to determine what deals could be pulled in. Sales representatives would also
10 receive calls on their personal cell phones from Nutanix's National Sales Manager (who reported to
11 Defendant Pandey) inquiring about the status of various deals. According to confidential witnesses,
12 during calendar 2018 and into calendar 2019, the need for revenue was "presented as a pending disaster
13 every quarter."
14

15 17. Although Defendants knew Nutanix was not getting new leads from Dell and had kept
16 its lead generation spending flat, throughout the Class Period, they told investors the opposite—that
17 Nutanix "plan[s] to continue to invest in sales and marketing so that we can capitalize on our market
18 opportunity," that "as part of our efforts to penetrate and expand in global markets, we have continually
19 increased our marketing activities" and that "in terms of the competitive landscape, nothing has
20 changed," Nutanix had "navigated competition waters really well" and the Company did not "have a
21 risk from the competition."
22

23 18. Moreover, in order to boost Nutanix's gross margins and the Company's bottom line,
24 according to confidential witnesses, during calendar 2018 Defendants instituted hiring freezes of key
25 sales personnel needed to generate sales leads and close customer deals. Yet throughout the Class Period,
26 Defendants told investors that Nutanix had "significantly increased [its] sales and marketing personnel"
27 and was "continu[ing] to expand our global sales and marketing teams."
28

1 19. Further exacerbating the lack of sales personnel, Nutanix's salesforce was experiencing
2 significant turnover and, according to confidential witnesses, there were simply too many new products
3 being offered and not enough time or resources to educate the sales force on each new product. Thus,
4 according to witnesses, Nutanix's sales team was simply "not built to handle the pipeline" and "general
5 sales readiness was poor." As Defendant Pandey ultimately admitted at the end of the Class Period,
6 Nutanix "took too much on in terms of new products in 2018" and the sales force was "a little bit
7 confused." Pandey further admitted "*we let chaos reign in the first half of '18 with product portfolio*
8 *in terms of lack of crisp messaging* and then obviously we realized that we had to do a better job of
9 messaging and classification and things of that nature."
10

11 20. To add insult to injury, Nutanix was also experiencing product quality issues with its
12 "core," *i.e.*, legacy, HCI technology as a result of Defendants' decision to focus management's attention
13 and cash flow on developing *new* products and acquiring new companies. These serious product quality
14 issues included the loss of functionality, such as no longer having "one click upgrades" and licensing
15 issues and were discussed at Quarterly Business Review ("QBR") meetings throughout calendar 2018
16 attended by, among others, Nutanix Vice Presidents and David Sangster, Nutanix's Chief Operating
17 Officer. Product quality issues were also discussed throughout 2018 at quarterly All-Hands meetings
18 attended by Defendants Pandey and Williams, where employees expressed concerns about the loss of
19 HCI sales due to product quality issues.
20

21 21. Nutanix was also forced to delay (multiple times) the launch of Xi Cloud Services that
22 Defendants intended to enable entry into the public cloud market and compensate for the loss of Dell
23 sales. Nutanix planned to launch Xi in "early 2018" but was forced to prolong its launch nearly a year
24 until the end of November 2018 due to engineering and other issues, placing Nutanix two years behind
25 the competition. Thus, Nutanix could not rely on Xi Cloud Services to make up any of the difference in
26 lost sales from Dell.
27
28

1 22. As Nutanix was unravelling, in one last Hail Mary, Defendants started an all-out war
2 against Dell/VMware by launching its “*You Decide*” campaign in January 2019. *You Decide* was
3 designed to directly compete against VMware and Dell. While *You Decide* obtained brief intrigue from
4 customers, it was met with a full-court press from Dell and VMware that only caused Nutanix to lose
5 more sales.

6 23. Defendants were ultimately forced to reveal the truth in two partially corrective
7 disclosures. First, on February 28, 2019, Nutanix announced fiscal Q2 2019 results reporting that the
8 Company missed guidance for the quarter by 15% and providing weak Q3 2019 guidance. In explaining
9 the reason for the earnings miss, Defendants admitted that “[I]n fiscal 2018, we reallocated some of our
10 lead generation spending to other priorities. As a result, there was a four quarter period from Q4
11 2017 to Q3 2018 that we basically kept lead generation spend flat” and that in FY 2019 “we again
12 reallocated capital away from lead generation spend during our planning process.” According to
13 Defendant Williams, “[t]he magnitude of the shift is in *the few tens of millions*.” Defendants, of course,
14 knew their strategy of not investing in lead generation was never going to work and that Nutanix was
15 living on borrowed time because the Company admittedly had done the same thing in 2016
16 (unsuccessfully) when Nutanix admittedly “had slowed down quite a bit in demand spending” and then
17 “woke up in 2017 and said, we got to do this thing around demand.”

18 24. Defendants further admitted on February 28, 2019 that “over the past few quarters,
19 [Nutanix has] not kept pace with our bullish sales hiring goals,” which “plays a role in our sales pipeline
20 development” and, thus Nutanix was impacted “by a shortage of sales reps in the first half of the fiscal
21 year, resulting in an under-spend by several million dollars” and that Nutanix suffered from poor sales
22 execution due to insufficient staffing and sales training.

23 25. Upon the news, Nutanix’s stock dropped from a closing price of \$50.09 on February 28,
24 2019 to a closing price of \$33.70 per share on March 1, 2019.

1 26. The Company's poor performance was immediately followed by the sudden departures
2 of Nutanix's top sales management. During the February 28, 2019 conference call, Pandey announced
3 that Chris Kaddaras, the current head of the Company's European sales, would be taking over the
4 Americas region to "improve our sales execution," replacing Sherry Lautenbach, Senior Vice President
5 of Americas Sales.

6
7 27. Then, on March 6, 2019, Louis Attanasio ("Attanasio"), Nutanix's Chief Revenue
8 Officer, to whom Lautenbach reported, notified Nutanix that he would be leaving Nutanix effective
9 March 8, 2019 "to pursue other opportunities." Attanasio's departure was not before he *liquidated his*
10 *entire holdings of Nutanix stock*, on December 19, 2018 right before the truth was revealed, selling
11 134,499 shares for proceeds of more than \$5.5 million.

12
13 28. On May 13, 2019, Defendant Pandey made explicit in an interview that Nutanix's poor
14 sales execution disclosed on February 28th included "*product quality issues*"—undoubtedly those
15 related to the Company's HCI technology.

16 29. Finally, on May 30, 2019, Defendants revealed that Nutanix had missed revenue and
17 billing targets due to continuing sales execution issues that were far worse than what Defendants had
18 previously represented on February 28, 2019.

19 30. Upon the news, Nutanix's stock dropped from a closing price of \$32.67 per share on May
20 30, 2019 to a \$28.07 on May 31, 2019.

21
22 31. Commenting on another bad quarter, William Blair analyst Jason Ader described
23 Nutanix's situation as "definitely worse than we expected," while Raymond James analyst Simon
24 Leopold reported "[w]e think it could take *several quarters* for Nutanix to return to double digit year-
25 over-year growth," as opposed to the "*quarter or two*" Defendants previously claimed. Moreover, Piper
26 Jaffray analyst Andrew Nowinski reported "[i]t is clear that this model is unsustainable, requiring
27 *massive* amounts of spending just to support modest revenue growth, which we believe is *attributable*
28 *to competition* [e.g., Dell/VMware]."

32. That same day the Company also reported that Sunil Potti, Nutanix's Chief Product Officer, was leaving the Company.

33. The Individual Defendants were motivated to conceal the true state of Nutanix's financial condition and business prospects to collectively sell over 704,500 shares of their personal holdings of Nutanix stock at artificially inflated prices for proceeds of *over \$30.5 million* during the Class Period. Moreover, Nutanix insiders, collectively (including Williams and Pandey) reaped profits of approximately *\$95 million* from the sale of their personal holdings of Nutanix stock during the Class Period.

34. Defendants also benefited from Nutanix's inflated stock price by using the Company's stock as currency to make key acquisitions to enable Nutanix to accelerate its race to the public cloud, including: (i) Netsil Inc. on March 22, 2018 for \$67.5 million, of which \$63.8 million was *financed using Nutanix stock* to launch "Flow," a software-defined network solution designed to provide application-centric micro-segment security services to protect against threats not protected by traditional network firewalls; and (ii) Mainframe2, Inc. ("Frame") on August 8, 2018 for \$130 million, of which *\$103.0 million was financed using Nutanix stock*, to launch a cloud-based Windows desktop and application delivery service that competes directly with Citrix and VMware.

35. As a result of the fraud alleged herein, Plaintiffs and the putative Class have suffered significant harm.

II. JURISDICTION AND VENUE

36. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. §240.10b-5].

37. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and §27 of the Exchange Act [15 U.S.C. §78aa].

38. Venue is proper in this District pursuant to §27 of the Exchange Act, and 28 U.S.C. §1391(b) because Nutanix maintains its headquarters in this District and many of the acts and conduct that constitute the violations of the law complained of herein occurred in this District.

39. In connection with the acts alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

III. PARTIES

40. Lead Plaintiff Shimon Hedvat purchased Nutanix common stock during the Class Period, as set forth in the certification filed with his lead plaintiff application (Dkt. No. 23-1), incorporated by reference herein, and was been damaged thereby.

41. Plaintiff City of Miami Fire Fighters' and Police Officers' Retirement Trust purchased Nutanix common stock during the Class Period, as set forth in the accompanying certification, and was damaged thereby.

42. Defendant Nutanix is an enterprise cloud platform provider incorporated in the state of Delaware in September 2009 and headquartered in San Jose, California. Nutanix common stock trades under the ticker "NTNX" on the NASDAQ, an efficient market.

43. Defendant Dheeraj Pandey ("Pandey") co-founded the Company and is, and was during the Class Period, Chief Executive Officer ("CEO") and Chairman of the Board of Nutanix. Pandey was previously the President of Nutanix from September 2009 until February 2016. According to the Company's Annual Report on Form 10-K for the fiscal year ending July 31, 2018 ("Fiscal 2018 Form 10-K"), Nutanix's "chief operating decision maker is a group which is comprised of our Chief Executive Officer and Chief Financial Officer. This group allocates resources and assesses financial performance based upon discrete financial information at the consolidated level."

44. Defendant Duston M. Williams ("Williams") is, and was during the Class Period, Chief Financial Officer ("CFO") of Nutanix. As noted above, according to the Fiscal 2018 Form 10-K, Nutanix's "chief operating decision maker is a group which is comprised of our Chief Executive Officer and Chief Financial Officer. This group allocates resources and assesses financial performance based upon discrete financial information at the consolidated level."

1 45. Defendants Pandey and Williams are collectively referred to herein as the “Individual
2 Defendants.”

3 46. The Individual Defendants, by virtue of their high-level positions at Nutanix, directly
4 participated in the management of the Company and were directly involved in the day-to-day operations
5 of the Company at its highest levels. As such, they were privy to confidential, proprietary information
6 concerning the Company and its business operations, growth, and financial condition. As set forth
7 below, the materially misstated information conveyed to the public was the result of the collective
8 actions of these individuals.

9 47. As senior executives at a publicly held company with common stock registered with the
10 SEC and traded on the NASDAQ, the Individual Defendants each had a duty to disseminate prompt,
11 accurate, and truthful information with respect to the Company’s business, operations, financial
12 statements, and internal controls, and to correct any previously issued statements that had become
13 materially misleading or untrue, so that the market price of Nutanix’s publicly traded common stock
14 would be based on accurate information. Each Individual Defendant violated these requirements and
15 obligations during the Class Period.

16 48. As a result of their positions of control and authority as senior executives, the Individual
17 Defendants were able to and did control the content of the SEC filings, press releases, and other public
18 statements issued by Nutanix during the Class Period. Each Individual Defendant had the ability to
19 correct the statements or prevent them from being released into the public sphere. Accordingly, the
20 Individual Defendants are responsible for the accuracy of the public statements detailed in this amended
21 complaint.

22 49. As a result of their positions of control and authority as senior executives, the Individual
23 Defendants had access to adverse, undisclosed information about Nutanix’s business, operations,
24 financial statements, and internal controls through their access to internal corporate documents and
25 conversations with other corporate officers and employees. The Individual Defendants knew or
26 recklessly disregarded that these adverse undisclosed facts rendered the positive representations made
27 by or about Nutanix materially false and misleading.

28 **IV. RELEVANT NON-PARTIES**

1 50. CW1 was a former Nutanix Commercial Account Manager for the Midwest region from
2 December 2016 to January 2019 reporting to a district manager responsible for managing customer
3 relationships, educating and selling Nutanix products to existing customers liaising between sales and
4 marketing and engineering.

5 51. CW2 was a former Nutanix executive in Worldwide Support Business Operations from
6 February 2016 to late 2016 and then an executive of the Company's Customer Success program from
7 late 2016 until March 2018. As an executive of the Customer Success program, CW2 reported to the
8 Executive Vice President of Customer Success, Indir Sidhu, who reported to Defendant Pandey. In the
9 role as executive of the Customer Success Program, CW2 was responsible for overseeing the Company's
10 customer success program in which customers paid a fee for receiving support from Nutanix.

11 52. CW3 was a former Nutanix Commercial Account Manager from May 2018 to July 2019
12 reporting to Alex Garwood up until December 2018 and then to another individual named Brian until
13 the end of this witnesses' employment. Both Garwood and Brian reported to Sherry Lautenbach
14 ("Lautenbach"), Senior Vice President of American Sales until March 2019. In this role, CW3 was
15 responsible for educating potential customer on Nutanix customers and closing sales deals for the
16 northern California and the Pacific Northwest region, including Alaska.

17 53. CW4 was the former Director of Digital Marketing at Nutanix from January 2018 until
18 May 2019 reporting to the Vice President of Growth and Demand Marketing, Gleb Brichko, who
19 reported to the Senior VP of Corporate Marketing, Julie O'Brien. Julie O'Brien reported to Ben Gibson,
20 Nutanix's Chief Marketing Officer, who reported to Defendant Pandey. In this role, CW4 was
21 responsible for developing lead generation strategies using digital and website marketing.

22 54. CW5 was a former Nutanix Global Account Manager from December 2017 to June 2019
23 reporting initially to Robert Stroud until July or August 2018 when Stroud was replaced by Roman
24 Kochanowsky, both of whom were Sales Directors for Nutanix's Northern region reporting to Anton
25 Granic who reported to Lautenbach. In this role, CW5 was responsible for handling larger potential
26 customers, including account planning, strategizing and pursuing potential customers, educating them on
27 Nutanix technology and ultimately selling to them.

1 55. CW6 was a former Nutanix Senior Product Manager from June 2018 to June 2019
2 reporting to a Director at Nutanix who reported to a VP who reported to the Company's Chief Operating
3 Officer, David Sangster. In this role, CW6 was responsible for hardware and software service support.

4 56. CW7 was a former Nutanix Account Manager from September 2015 to July 2017 and a
5 former Nutanix Global Account Manager from August 2017 to August 2018. In CW7's role as an
6 Account Manager, CW7 was responsible for managing relationships with customers for between twenty
7 and fifty accounts across many types of customers. In CW7's role as a Global Account Manager, CW7
8 managed fewer but larger customer and more strategically significant customer accounts. CW7 (like all
9 of Nutanix's other sales staff) sold the "entire suite" of Nutanix products, acting as a "resource broker"
10 for any marketing or engineering support, and being available to provide answers to any other types of
11 questions that customers may have.
12

13 **V. STATEMENT OF FACTS**

14 **A. Nutanix Company Background**

15 57. Founded in 2009 by a group including Defendant Pandey, Nutanix describes itself as
16 "provid[ing] a leading enterprise cloud platform that powers many of the world's business applications
17 and end user services by providing software solutions that digitize traditional silos of enterprise
18 computing."
19

20 58. Nutanix's products and services are sold to end customers through distributors, resellers,
21 and original equipment manufacturers (OEMs). Nutanix's OEM partners include Dell, Lenovo Group
22 Ltd. ("Lenovo"), International Business Machines Corporation ("IBM") and Fujitsu Technology
23 Solutions GmbH ("Fujitsu"). Although the Company historically delivered most of its solutions on an
24 appliance, beginning in the first quarter of fiscal 2018, more and more customers began buying
25 appliances directly from OEM's, who licensed the Company's software and packaged it with their own
26 hardware, offered these appliances in a range of configurations, and sold associated support offerings
27 that Nutanix jointly supported.
28

59. Nutanix’s major competitors fall into four categories: (1) software providers, such as Red Hat, Inc. and VMware, that offer a broad range of virtualization, infrastructure and management products to build and operate enterprise clouds; (2) traditional IT systems vendors, such as Cisco Systems, Inc. (“Cisco”), Dell, Hewlett Packard Enterprise Company (“HPE”), Hitachi Data Systems (“Hitachi”), IBM, and Lenovo, that offer integrated systems that include bundles of servers, storage and networking solutions, as well as a broad range of standalone server and storage products; (3) traditional storage array vendors, such as Dell, Hitachi, and NetApp, Inc. (“NetApp”), which typically sell centralized storage products; and (4) providers of public cloud infrastructure and services, such as Amazon.com, Inc., Google Inc., and Microsoft Corporation.

60. Some of these competitors are also vendors for Nutanix’s hyperconverged infrastructure and software-defined storage products, including Cisco, Dell, HPE and VMware.

61. As discussed below, throughout the Class Period, Nutanix offered its “core” hyperconverged infrastructure (HCI) appliance product and software defined storage. The Company also introduced a number of new software cloud-based products in 2018 in order to compete. The Company’s new products, however, were late to market, plagued by engineering issues causing multiple launch delays and/or were not generating revenue for the Company.

1. Nutanix’s “Core” Hyperconverged Infrastructure (HCI) Technology

62. As technology evolved with the advent of the cloud for mainstream consumption, enterprises increasingly began re-platforming their existing IT environments with a hybrid cloud architecture that allows use of a private cloud and leverages public clouds where applicable.

63. In response to evolving technology, Nutanix pioneered its “core” hyper-converged infrastructure (HCI) appliance product and software defined storage. According to the Company’s public filings, Nutanix’s HCI solution allows customers “to virtualize various clouds – private, public, edge – into one seamless cloud enabling enterprises to choose the right cloud for the right application.” Nutanix boasts that its “cloud platform converges compute, virtualization, storage, networking, desktop, governance and security services in one integrated simple to consume solution delivered through software.”

1 64. Nutanix’s “core” HCI platform is a hypervisor solution named “Acropolis” that
2 purportedly starts with hyperconvergence, then adds native virtualization, enterprise storage, virtual
3 networking, and platform services, including application mobility and security, into a single turnkey
4 platform. The goal of hyperconverged infrastructure is to simplify workload management in enterprise
5 data centers by combining everything necessary for data center computing (server, storage, and
6 virtualization software) into a single machine. The “convergence” that HCI provides in the data center
7 comes from: (i) the management of applications and the servers that host them using a single platform;
8 (ii) compute capacity, file storage, memory and network connectivity that are collective together but
9 managed individually like public utilities; and (iii) the workload being packaged within the same class
10 of construct, usually virtual machines designed to be hosted by hypervisors, which enable HCI platforms
11 to treat them as equivalent software components with different operating requirements.

12 65. HCI at its core enables the building up and scaling out of systems using servers as
13 building blocks. Thus, each time a new server is installed with a given amount of capacity, storage and
14 memory, HCI appropriates its resources and delegates them to their respective pools.

15 66. Nutanix customers have the option to either buy the Company’s HCI enterprise software
16 and deploy it on a variety of qualified hardware platforms, or to purchase the software pre-installed on
17 hardware through one of the Company’s OEM partners or on the Nutanix-branded “NX” hardware line.
18 Nutanix outsources production of the NX hardware to Super Micro Computer, Inc. (“Super Micro”) and
19 Flextronics Systems Limited (“Flextronics”). Software delivered on configured to order appliances is
20 not portable to other appliances and has a term equal to the life of the associated appliance, while
21 separately purchased software typically has a term of one to five years.

22 67. Prior to and throughout the Class Period, Nutanix’s main competitor in the HCI market
23 was VMware. According to CW1, after Dell acquired VMware in September 2016, VMware made
24 significant improvements to the VX Rail product, including patching that could be done in fifteen
25 minutes across multiple applications making them much less cumbersome. As a result of these
26 improvements, CW1 stated that Nutanix no longer had a competitive advantage over VMware.

2. **In Response to Competitive Pressures and Rapidly Changing Technology, Nutanix Announces it Will Shift Focus Starting in Fiscal 2018 to Become a Software-Only, Subscription Based Company**

68. Leading up to the start of the Class Period, Nutanix was facing increasing competitive pressures as more products and companies entered the HCI market. As the rise of consumerization led the tech industry to fundamentally shift from hardware to software, beginning in the first quarter of fiscal 2018, Nutanix began transitioning its business to focus on software-only products (as opposed to hardware) and to a subscription-based model (as opposed to licensing model). This software-based model allows consumers the flexibility to transfer their software-only entitlements to another qualified third-party platform.

69. During 2018, Nutanix introduced three cloud-based products: Beam, Frame and Xi Cloud Services. Beam purports to provide customers with visibility and analysis of their cloud consumption patterns, along with one-click optimization across cloud environments. Frame, acquired in August 2018, purports to provide desktop-as-a-service that combines web-scale design of cloud applications with the functionality of traditional virtual desktop applications.

70. Xi Cloud Services is Nutanix's first public-cloud product. According to CW2, Nutanix needed a cloud solution in order to compete because the majority of Nutanix's customers were moving to the cloud as it is less expensive. Indeed, potential customers at the Company's .NEXT 2017 conference were reportedly already starting the move to the public cloud. Analysts noted that "new offerings (like Calm and Xi) will be critical to Nutanix's long-run success."

71. At Nutanix's June 29, 2017 .NEXT 2017 conference, Defendants announced plans to launch XI Cloud Services in "*early* 2018." Nutanix stated at the .NEXT 2017 conference that the Company's strategy for Xi was to "build its market-leading hyper-convergence technology into an enterprise cloud platform" by tying on-premises data to the public cloud with the help of its Calm orchestration software, which is built into Prism and captures an application in a blueprint with all the application's containers, virtual machines, binaries and run book orchestration.

72. While Nutanix had previously developed private cloud networks through operating systems that run on a customer's own hardware, Xi was targeted to rival Amazon Web Services and

1 Microsoft's Azure on the public cloud. AWS has an exclusive partnership with VMware to provide it
2 Software-Defined Data Center software on the AWS cloud.

3 73. At the .NEXT 2017 conference, Nutanix also announced a partnership with Google to
4 compete with VMware's partnership with AWS. Xi would allow customers to move on-premise
5 workloads to Google's public cloud.

6 74. Defendant Pandey described some of the advantages of Nutanix's shift to software
7 products:

8 We now have a meaningful competitive advantage in being the most portable
9 operating system built for the enterprise cloud. This kept growing our total
10 addressable market as we ported our software to all these platforms in the last three
11 years. A software only form factor gives us ubiquity. It also enables friction-free
12 access to off our technology thinkers, prospects were at the top sales funnel. But
the change is beyond just the product, it includes thoughtful changes to the port to
cash process, sales compensation, software downloads, license management and
new tools the top of the sales funnel.

13 These changes also prepare us well as we embrace the subscription model next year
14 with our Xi, spelled Xi Cloud services. The Company that is obsessed with an
15 iPhone-like motive is ready to institutionalize the pure software version of its
16 operating system, and all that without compromising customer experience and
without being negligent about the boundary at which hardware and software meet.

17 75. In connection with the Company's shift to software-only products, Nutanix also shifted
18 to sell its software cloud-based offerings on a subscription basis recognizing revenue over the life of the
19 subscription, rather than on-premise hardware products generating revenue through software licenses
20 based on the life of the device.

21 76. According to Nutanix, software-only sales typically reflect higher gross margins and
22 lower revenue as compared to software deployed on off-the-shelf servers since the sale does not include
23 revenue or costs associated with the hardware component.

24 77. In connection with this shift, Nutanix also adjusted its financial reporting to gradually
25 eliminate pass-through hardware-related revenue. Defendant Williams explained that, "All things being
26 equal, the direct impact of this specific change would result in significantly higher software content and
27 significantly higher gross margins with no change to our gross and gross profit dollars." Williams
28

1 emphasized that “[p]robably, the most important point to make here is that this change will have
2 absolutely no impact to our future growth rates of our software and support billings.”

3 78. Because software-only sales purportedly reflect higher gross margins and lower revenue
4 in a given quarter, Defendants told investors in March 2018 that “the best metric to measure [Nutanix’s]
5 progress during this transition period . . . is gross profit dollars and growth in gross profit dollars and
6 not revenue or revenue growth.”

7 79. As discussed below, the real, but undisclosed reason Nutanix’s gross margins improved
8 during the Class Period was because the Company significantly cut its sales hiring in fiscal 2018, thereby
9 reducing overall expenses and increasing profits.

10 **B. Nutanix’s Pipeline Growth is Dependent Upon the Company Making “Significant”** 11 **Investments in Sales and Marketing**

12 **1. Nutanix’s Ability to Generate “Qualified” Sales Leads is Critical to the** 13 **Company’s Revenue Growth**

14 80. According Nutanix’s public filings, the Company’s marketing efforts purportedly
15 include lead generation activities.³

16 81. Given the competitive environment in which Nutanix operates, it is imperative that the
17 Company actively promote its products in order to generate “qualified” sales leads to fill the Company’s
18 pipeline and increase sales. As Nutanix further stated in its public filings, a “[k]ey element to [Nutanix’s]
19 growth strategy” is to “[i]nvest to acquire new end customers” by “increasing investment in sales and
20 marketing” to create market awareness and educate customers about Nutanix products. Indeed,
21 according to CW2, the marketing group must engage in lead generation activities and without such
22 activities, the pipeline will not materialize for new customers.

23 82. According to Defendant Williams, “[l]ead generation spending is a key component to
24 building pipeline, which ultimately significantly impacts bookings, billings, and revenue.” CW2 and
25 CW3 stated that the typical sales cycle from the time a lead is identified to when a deal is closed is on
26

27 ³ In their public statements, Defendants use the term “lead generation” interchangeably with the term
28 “demand generation,” indicating the two terms have synonymous meanings. Accordingly, Plaintiffs
use the terms interchangeably herein.

1 average approximately six months, but sometimes can be as short as three months or as long as nine
2 months.

3 83. CW4 recalled that lead generation at Nutanix consisted of several distinct groups: Digital
4 Marketing, Events, Program Teams, Account-Based Marketing (“ABM”), and Public Relations. The
5 Digital Marketing group, of which this witness was a part, developed leads by way of email marketing
6 and visits to Nutanix’s website.

7 84. CW4 stated that after a lead is generated, the prospective customer is kicked over to sales
8 and it is up to the sales force to sell them on Nutanix’s products. For the Company’s sales efforts to be
9 successful, they must “involve extensive efforts to educate [its] end customers as to the benefits and
10 capabilities of [Nutanix’s] web-scale architecture solutions, particularly as [it] continues[s] to pursue
11 large organizations as end customers.” This includes educating the end customer about the technical
12 capabilities and cost saving potential of Nutanix’s products. Significant training is also required for new
13 sales hires and it usually takes sales team members until the start of their fourth quarter to fully ramp up
14 and become productive.

15 85. The size of Nutanix’s sales and marketing group is essential to its ability to generate a
16 growing pipeline of sales. As Defendants concede “[i]f we do not effectively expand and train our sales
17 force, we may be unable to add new end-customers or increase sales to our existing end-customers and
18 our business will be adversely affected.”

19 86. According to Defendant Pandey, when analyzing sales productivity, the key “inputs are
20 salespeople and pipeline spend, the demand gen spend.” However, starting in Fiscal 2018 and continuing
21 throughout the Class Period, Defendants admittedly decided as part of the “planning process” to keep
22 lead generation spending *flat* and implemented a hiring freeze of sales personnel. Yet Defendants falsely
23 told investors that Nutanix had “continually increased our marketing activities related to brand
24 awareness, promotions, trade shows and partner programs,” was “investing aggressively in sales
25 enablement and co-marketing,” and had “significantly increased our sales and marketing personnel.”

26 87. Moreover, unbeknownst to investors, while sales lead generation was particularly critical
27 to Nutanix during the Class Period as the Company shifted away from selling appliances to software-
28 only products, Nutanix’s sales force was admittedly understaffed and ill-equipped to market Nutanix’s

1 new products because the Company “took too much on in terms of new products in 2018” and the sales
 2 force were “a little bit confused,” which “may have affected the demand gen.” *See* Section VII, *infra*.
 3 According to Defendant Pandey, “[s]o, we let chaos reign in the first half of ’18 with product portfolio
 4 in terms of lack of crisp messaging and then obviously we realized that we had to do a better job of
 5 messaging and classification and things of that nature.”

6 **2. Nutanix Relied Heavily on its Relationship with Dell to Generate Sales** 7 **Leads**

8 88. Prior to and during the Class Period, Nutanix relied heavily on Dell to generate sales
 9 leads. According to CW1, Dell was Nutanix’s “largest OEM by far” and Dell accounted for “a huge
 10 chunk of revenue” for Nutanix.

11 89. Moreover, according to CW1, Dell generated approximately 40% of Nutanix’s overall
 12 sales leads. CW1 stated that Nutanix’s senior management, including Defendants Pandey and Williams,
 13 “knew exactly” what percentage of Nutanix’s sales and sales leads that Dell provided at any given time
 14 because they stated it during quarterly employee All-Hands meetings throughout CW1’s employment.

15 90. According to CW1, the Nutanix/Dell relationship was governed by terms set forth in the
 16 parties’ OEM agreement. CW1 recalled that Nutanix and Dell employees assigned to work on the
 17 Dell/Nutanix alliance worked together to structure the OEM agreement and the “go to market” strategy,
 18 as well as to determine the royalties that Dell would pay Nutanix. CW1 stated that the OEM agreement
 19 contained certain “rules of engagement” that required Dell to sell only Nutanix products to existing and
 20 new customers on the Dell XC product line, which was the Nutanix solution on Dell hardware. CW1
 21 further recalled that under the “rules of engagement,” Dell was not permitted under the OEM agreement
 22 to present quotes for competitor products (*e.g.*, VMware) in these circumstances.

23 91. As discussed below, the Nutanix/Dell OEM partnership quickly deteriorated once Dell
 24 acquired VMware in September 2016 because Dell and VMware began steering potential new customers
 25 towards VMware instead of Nutanix in violation of the OEM agreement, resulting in the loss of a
 26 significant amount of sales and sales leads for new customers for Nutanix.

C. Beginning in Fiscal Q4 2017, Nutanix Diverts Spending Away from Lead Generation to Engineering and New Product Development at the Expense of its Sales Pipeline and the Product Quality of its “Core” HCI Products

92. Unbeknownst to investors, from at least Q4 fiscal 2017 through Q2 fiscal 2019, Defendants secretly decided during the “planning process” to keep spending on lead generation flat and, instead, reallocated those monies primarily to engineering to focus on the development of its Xi Cloud Services product and new software products, including acquisitions.

1. Nutanix Clandestinely Halts Sales and Marketing Spend

93. In fiscal year 2017, Nutanix had increased its lead generation spend by 75% over the prior year in order to keep pace with its sales growth. After Dell acquired VMware in 2016 and the duo began taking away Nutanix’s market share, in order to stay competitive, the Company had to accelerate its efforts to enter the public cloud market. Thus, during the “planning process,” Defendants secretly decided to reallocate lead generation money to engineering and new product development, primarily, to fund the development of the Xi Cloud Services product and/or acquire new products. Despite the likely known adverse impact of not investing in lead generation based upon prior experience, Defendants kept their decision quiet and *did not disclose it to investors*. Rather, Defendants falsely told the market throughout the Class Period that Nutanix was continuing to invest in marketing and lead generation activities to facilitate continued “strong” growth.

94. As Defendants ultimately *admitted* in February 2019, “there was a four quarter period from Q4 2017 to Q3 2018 that [Defendants] basically kept lead generation spend flat” and “during our planning process” for 2019, Nutanix “again” “reallocated capital away from lead generation.” According to Defendants “a lot [of the reallocated lead generation money] went to engineering.”

95. CW2 recalled that during this witnesses’ employment in 2018, Nutanix was making “quite a bit” of investment in research and development, so much so that Nutanix became “overinvested” in R&D. CW2 also recalled that in 2018, Nutanix was making acquisitions for new software products (e.g., Frame) that were not generating revenue.

96. Other former Nutanix employees confirmed Nutanix did not increase critical lead generation spending in fiscal 2018 or the first quarter of fiscal 2019. According to CW4, the money

1 allocated to Digital Marketing had dipped in fiscal year 2018. CW4 recalled that \$830,000 had been
 2 allocated for Digital Marketing in Q3 of fiscal 2018 when this witness first began working at Nutanix.
 3 This amount remained consistent until the beginning of January 2019, when it became clear that the
 4 quarter was not going to be good. At that time, management allocated another \$2-3 million towards the
 5 Digital Marketing budget for the remainder of fiscal Q2 2019 and another \$2-3 million for the following
 6 quarter. Thus, the amount that was reallocated of *more than three times* the prior spending was
 7 indisputably significant. Defendants even admit that the spending for lead generation was simply
 8 “inadequate” and material, stating: “[t]he magnitude of the shift is in a few tens of millions.”

9 97. CW3 too recalled that spending on lead generation appeared to be non-existent. Indeed,
 10 by the time CW3 started at Nutanix in May 2018, this witness recalled there were not many sales leads
 11 and leads were “pretty dry.” Likewise, CW5 stated that Nutanix did not properly invest in the
 12 development of global accounts and most of Nutanix’s sales were driven from existing accounts. CW1
 13 corroborated CW5’s account that by the summer of 2018, approximately 80% of Nutanix’s sales came
 14 from 15% of customers, which were mainly existing accounts.

15 98. In addition to using reallocated funds to develop Xi, Nutanix also used the additional
 16 funds to launch a number of new software products. For example, in 2018 Nutanix acquired three cloud-
 17 based companies in order expand its core HCI into an enterprise cloud operating system: (i) Minjar, Inc.
 18 on March 16, 2018 based out of Bangalore, India for \$19.3 million to launch “Beam,” Nutanix’s first
 19 software-as-a-service offering; (ii) Netsil Inc. on March 22, 2018 for \$67.5 million, of which \$63.8
 20 million was financed using Nutanix stock, to launch “Flow,” a software-defined network solution
 21 designed to provide application-centric micro-segment security services to protect against threats not
 22 protected by traditional network firewalls; and (iii) Mainframe2, Inc. (“Frame”), a cloud-based
 23 Windows desktop and application delivery service, on August 24, 2018 for \$ 130 million, of which
 24 \$103.3 million was financed using Nutanix stock.

25 99. Nutanix also offered other new software products such as Calm and Flow. According to
 26 Sunil Potti, Nutanix’s Chief Product and Development Officer, at the May 2018 .NEXT conference, the
 27 Company “went from a few products just 12 months ago to over 10 products within a span of a year.”
 28

1 By August 30, 2018, analyst Jason Ader commented during the investor call that “it’s hard to keep up
2 with all the new products, honestly. You have a laundry list right now.”

3 100. As discussed below, Nutanix’s decision to reallocate lead generation spending to new
4 products and acquisitions came at a significant price as the Company’s sales pipeline dried up in early
5 2018 and its core HCI technology suffered causing the Company to lose sales not only for lack of leads
6 but also due to product quality issues.

7 **2. As A Result of Diverting Money Away from HCI to New Product**
8 **Development, Nutanix’s “Core” HCI Product Quality Deteriorates**
9 **Resulting in Lost Sales**

10 101. In calendar 2018, the product quality of Nutanix’s “core” HCI technology began to
11 suffer. According to CW6, when this witness began employment in June 2018, HCI product quality was
12 lacking and “not what it used to be” because Nutanix had not been allocating resources or managerial
13 focus to Nutanix’s existing HCI products, but instead focused these resources on developing new
14 products.

15 102. For example, CW6 recalled one of Nutanix’s marketing pitches was that it was easy to
16 upgrade Nutanix software onto any platform. Yet, according to CW6, during this witness’ employment
17 throughout calendar 2018, Nutanix no longer offered “one click upgrades” to the latest versions of its
18 HCI software, as previously offered. Thus, one of the claimed advantages Nutanix marketed no longer
19 existed.

20 103. CW6 also stated that customers communicate with one another and the lack of HCI
21 product quality also negatively impacted Nutanix’s ability to sell more products to existing and new
22 customers, 80% of which use Nutanix’s core products, and resulted in customers going elsewhere and
23 consequently, the loss of valuable sales to Nutanix.

24 104. According to CW6, the Customer Support Group at Nutanix, comprised of 200
25 personnel, including engineers, were getting complaints from customers about the quality of Nutanix’s
26 existing and newly released HCI products. The poor product quality had a direct impact on Nutanix’s
27 Net Promoter Scores (“NPS”). NPS is essentially a customer recommendation survey and is determined
28

1 by customers receiving a survey following a sale or closed customer support case in which the customer
2 rates the product and the company on a score of 0 – 100.

3 105. According to CW6, Nutanix had historically enjoyed a much higher NPS than did Cisco,
4 Dell and others. For instance, Nutanix had scores as high as 89-90, compared to the 50s for these other
5 companies. But in 3Q and 4Q of fiscal 2018, Nutanix's NPS began going down due to poor HCI product
6 performance.

7 106. CW6 stated that fundamentally, Nutanix needed to improve its product quality and the
8 poor product quality had a direct impact on Nutanix's sales pipeline because customers would not buy
9 products from Nutanix even with the superior support service because the customers did not want to
10 have to call for support service in the first place no matter how good the service was.

11 107. According to CW6, product quality issues were discussed at every QBR meeting during
12 CW6's employment, which were attended by all Director-level personnel, the VP of Support, "guest
13 speakers," the VP of Products, as well as the COO, among others. CW6 recalled that "everyone" in the
14 QBR meetings raised concerns about the product quality going down. According to CW6, "most VPs
15 were aware" of the product quality issues plaguing the HCI products because customers were not buying
16 them.

17 108. CW6 recalled that QBR meetings were typically held within one to three weeks following
18 the end of a quarter and usually lasted one to two days. QBRs were held at the main company
19 headquarters, but sometimes at different sites, including the United Kingdom and India. CW6 stated that
20 there were different types of QBRs, including "functional QBRs" and "cross-functional QBRs".

21 109. According to CW6, business groups had different metrics assigned to them, including
22 Key Performance Indicators ("KPIs") for which they reported on at the QBRs. CW6 stated that at QBRs,
23 attendees looked at these various KPI metrics in "dashboard" reports to see how a given business group
24 had performed in the quarter against what had been forecasted and to then determine what could be
25 learned and applied to the ensuing quarter.

26 110. CW6 recalled that most sales Directors who attended the QBRs prepared a review of the
27 unit for which they were responsible. For instance, for Hardware and Software Support, the QBRs
28 would go over the performance of the quarter, how it compared against the forecast, the prior quarter,

1 and the same quarter of the prior year. If the performance was above or below expectations or prior
2 results, explanations were provided for why.

3 111. CW6 confirmed that the KPIs, dashboard reports and other review materials discussed at
4 the QBRs were stored on a Company shared drive. According to CW6, QBR meeting attendees, as well
5 as all Director level employees and above had access to the QBR meeting dashboard and review
6 materials on the Company's shared drive. These individuals included Defendant Pandey and Nutanix's
7 executive leadership, among others. CW6 stated that COO David Sangster⁴ attended some of the QBR
8 meetings and had access to the meeting reports and was aware of their contents, as well as concerns
9 raised during the meetings about deteriorating HCI product quality.

10 112. CW6 stated that these product quality issues were also raised by employees at Company
11 All-Hands meetings held every quarter during CW6's employment. All-Hands meeting attendees
12 included CW6, defendants Pandey and Williams, and all Nutanix employees who wanted to attend. All-
13 Hands meetings were typically held once a quarter (occasionally more frequently).

14 113. As Defendant Pandey would later admit during an interview on May 13, 2019, part of
15 Nutanix's sales execution problems were, indeed, due to previously undisclosed "*product quality*"
16 issues:

17 The threats to us have nothing to do with the world outside. Over *the last six to nine*
18 *months*, our shortfall is because of things we are doing internally – *marketing, demand*
19 *generation, sales execution*, product integration, *product quality*. They're all internal
20 things. As long as the market is large, I don't have a risk from the competition. Most of the
21 risks are from within our company.⁵

22 **D. By at Least Mid-2017, Dell Began Promoting VMware Over Nutanix Products**
23 **Resulting in A Decline of Nutanix's Pipeline and Sales**

24 114. According to CW1, beginning around the summer of 2017 after Dell acquired VMware
25 and made significant improvements to VX Rail, Dell began "really pushing" VMware on its customers
26 and was providing customers with quotes for VMware products, rather than Nutanix products, in
27 violation of the parties' OEM agreement.

28 ⁴ Sangster reported directly to Pandey.

⁵ <https://searchconvergedinfrastructure.techtarget.com/news/252463270/Nutanix-CEO-Wed-love-to-replace-VMware-as-Switzerland>.

115. According to CW1, Nutanix's executives were aware that Dell was breaking the "rules of engagement" by promoting VMware products instead of Nutanix products because Dell sales leads and sales were significantly declining in the second half of calendar 2017 and throughout calendar 2018. CW1 stated that the percentage of sales and leads from Dell, as well as Nutanix's declining sales pipeline, were discussed at quarterly Company All-Hands meetings attended by Defendants Pandey and Williams and Nutanix employees starting by at least April or May 2018 and throughout CW1's employment. Specifically, CW1 recalled it being discussed at these All-Hands meetings that there were not enough new deals in the Salesforce.com system, there were an inadequate number of new leads or opportunities in the system and that the new opportunities that were in Salesforce.com were not of sufficient monetary value to meet the Company's objectives and thus, these areas needed to be improved.

116. CW1 stated that the dire situation with Dell was known by Nutanix's Director of Sales Operations, Chief Revenue Officer, National Sales Manager, National Channel Partner manager and Defendant Pandey because it would have been discussed at weekly staff meetings and at quarterly All-Hands meetings where Pandey discussed what percentage of Nutanix sales and leads came from Dell.

117. According to CW1, in January 2018, Dell changed its compensation structure to reward Dell sales personnel for promoting VMware products instead of Nutanix products. At some point in calendar 2018, CW1 recalled that Dell's salesforce was not compensated at all if they sold Nutanix products. CW1 was aware of the change in Dell's compensation structure because it was discussed at quarterly Nutanix All-Hands meetings in calendar 2018 during which Nutanix alliance partners addressed the issue when responding to questions from Nutanix's salesforce about how their Dell counterparts got paid and what incentives they had to sell Nutanix's products.

118. CW4 confirmed that friends of CW4's who worked at VMware told this witness that Dell instructed its salesforce to deliberately go after Nutanix by aggressively promoting VMware products. Likewise, CW5 confirmed that the large global accounts this witness was chasing during CW5's employment had been primarily using Dell, VMware and EMC.

119. After Dell began compensating its salesforce to promote VMware products instead of Nutanix products, Nutanix did not receive any new sales leads from Dell. Thus, according to CW1, tensions in the Dell/Nutanix relationship rose throughout 2018 as Dell had been promoting VMware

1 first to all new customers and would only promote Nutanix products if the prospective customer used
2 Microsoft Hyper-V, which represented less than 5% of the market.

3 120. On March 1, 2018, Nutanix conspicuously disclosed that the Company would no longer
4 break out sales from its largest OEM customers, including Dell, stating:

5 Going forward due to the ubiquitous nature of the software, we will no longer be
6 reporting or commenting on specific details surrounding the Dell, Lenovo and IBM
OEM business or any other specific vendors such as Cisco or HP.

7 121. By April 2018, according to CW1, Nutanix “alliance partners” assigned to manage the
8 Company’s partnerships with Dell and other OEMs, were moved off the Dell account to manage
9 relationships with Lenovo instead. CW1 recalled one instance at this time where this witness had gotten
10 a deal registered with a customer involving Lenovo as partner. When CW1 needed approval for a larger
11 discount than what was originally quoted by the Lenovo reseller, CW1 got a response from someone
12 whom he knew had been on the Nutanix/Dell alliance team. This individual explained to CW1 that he
13 had moved to Nutanix’s Lenovo alliance team because Nutanix’s relationship with Dell was “really
14 ugly” and his boss had also moved from the Dell to the Lenovo alliance team.

15 122. Without Dell’s support, Nutanix’s sales pipeline for new customers quickly dried up. By
16 May 2018, according to CW3, the pipeline was “pretty dry.” CW1 similarly recalled that by April or
17 May 2018, it was “very obvious” that Nutanix’s sales pipeline was drying up and in trouble.

18 123. An April 3, 2019 CRN.com article later confirmed that Dell had been favoring VMware
19 over Nutanix for quite some time. According to a CEO for one of Dell’s partners quoted in the CRN.com
20 article, Dell was unequivocally favoring VMware: “I’m not being told by Dell channel reps that I should
21 be selling more [Nutanix] XC, I’m being told and pushed to sell VxRail.” Similarly, on April 29, 2019,
22 Dell’s Vice Chairman of Products and Operations, Jeff Clarke, stated during Dell Technologies Word,
23 “[t]here is no question about what we lead with. It’s our own IP [intellectual property]. If customers
24 want choice, we have choice. We will provide servers [for Nutanix software], *but we will lead with*
25 *VMware.*”
26
27
28

124. Defendants were aware but did not disclose to investors that by January 2018, the Company had stopped receiving new sales leads from Dell and the only Dell sales Nutanix had were from existing customers already using Nutanix software.

125. Yet Defendant Pandey told investors that “I don’t have a risk from the competition.”

E. Nutanix Experiences Delays in the Planned Launch of its Xi Product Due to Engineering Issues.

126. Although Xi Cloud Services was originally slated to be released in early 2018, during a November 20, 2017 conference call immediately prior to the start of the Class Period, Defendants revealed that the Xi launch would be delayed at least another six months until mid-2018 because of delays with the release of its operating software update, AOS 5.5, as well as engineering issues:

Katy Huberty

And then at the user conference in June, I think, you talked about Xi launching early 2018 today you talked about middle of the year. Is that just a function of early release versus GA, or is the timing different? And then maybe you can comment on when you think the memory market loosens, how that’s been a factor on the gross margins. Thank you.

Dheeraj Pandey

I think one of the things, Katy, that we talked about in our overall engineering culture is how this release *that we’re actually doing in 5.5 took us a little bit longer to come out with, in terms of general availability. And that pushes a few of the things out as well. So there is, I would say, three months’ worth of victim in Xi*, because we have to keep the lights on with on-prem customers as well. *And we do expect to actually change the way we do engineering.* In these two pizza teams, like really thinking about cloud engineering, what does it mean to have a platoon of developers who are independently releasing code and becoming a company that’s more DevOps like, so that’s the transition that the company is going through to actually improve our overall fidelity of releases as well.

127. By April 2018, the launch of Xi, again, was called into doubt as the Company continued to experience engineering issues causing it to delay the launch until the end of 2018 or potentially early 2019. In an April 27, 2018 report published by Bloomberg, Defendants revealed that the Company was continuing to have engineering issues and challenges. Defendant Pandey claimed that adopting engineering for cloud computer was a “harder problem than we thought,” explaining:

1 It was less to do with products, but it's the 'how' of engineering. How do you break
2 things down, how do you do smaller releases, how do you have multiple parallel
streams of engineering going on at the same time?⁶

3 128. Jennifer Massaro, a spokeswoman for Nutanix, wrote in an April 2018 email to
4 Bloomberg: "We have extended the timeline and *have added teams to do it right*. We are taking the
5 truer but longer path to Xi."⁷ On the news of further Xi delays, Nutanix's stock fell approximately 5%
6 from a closing price of \$52.15 per share on April 26, 2018 to a closing price of \$49.59 per share on April
7 27, 2018.

8 129. According to CW6, the execution for Xi Cloud Services product development was
9 lacking and the product development team did not have the resources to meet the timelines for
10 developing the product.

11 130. In August 2018, Nutanix announced it hired Ben Ravani as SVP of Xi reliability
12 Engineering, thus indicating there were significant problems that needed attention before Xi would be
13 released. Thus, Defendants admittedly as part of the fiscal 2019 "planning process" continued to
14 reallocate money away from lead generation to engineering.

15 131. Ultimately, it was not until November 28, 2018, nearly one year after the original launch
16 date, that Xi was finally released, but only as "general[ly] availabl[e]." Upon its general release,
17 Defendant Pandey commented "[b]ut that being said, things like Azure Stack and VMware Cloud on
18 AWS will definitely become competitive for us now."

19 132. Indeed, by the time Nutanix finally launched Xi, according to CW7, this witnesses' large
20 accounts with Apple and Salesforce.com had already ended up going with AWS because Nutanix did
21 not have a cloud solution.

22 **F. Nutanix Experiences Significant Attrition in the Sales Group and Implements**
23 **Hiring Freeze to Boost Margins**

24 133. In connection with the Company's purported transition to an all-software company,
25 Nutanix hired Lou Attanasio as the new Chief Revenue Officer in November 2017, who reported directly
26

27 ⁶ Nico Grant, "Nutanix's Amazon Cloud Rival Delayed By Engineering issues" BLOOMBERG (April
28 27, 2018), available at <https://www.bloomberg.com/news/articles/2018-04-27/nutanix-s-amazon-cloud-killer-delayed-by-engineering-problems>

⁷ *Id.*

1 to Defendant Pandey. Nutanix also replaced Craig Bumpus, Senior Vice President of North American
2 sales, in December of 2017 with Sherry Lautenbach, a former IBM employee of 23 years.

3 134. Once Attanasio and Lautenbach took over, CW2 explained that a large number of sales
4 and other personnel left the Company in 2018. CW7 confirmed CW2's account stating that throughout
5 this witness' tenure at Nutanix, turnover was chronic with as many as three different VPs being in charge
6 of the Bay Area. CW7 further stated that the Company's attrition problems were systemic throughout
7 the organization, at every level, throughout the time of CW7's employment, both with respect to
8 terminations and resignations. This witness stated that loss of sales employees during Attanasio's and
9 Lautenbach's tenures *directly contributed to Nutanix's sales execution problems*. CW6 similarly
10 recalled that Nutanix was experiencing lots of turnover in 2018, including of sales directors and the VP
11 of operations. CW1 stated this witness also observed high turnover during at least calendar 2018 at
12 Nutanix.

13 135. Thus, throughout the Class Period, employee departures acted as an extremely prevalent
14 and undisclosed headwind to sales execution. Likewise, sales execution at Nutanix suffered from an
15 undisclosed hiring freeze.

16 136. In addition to Nutanix's lead generation underspending described above, the Company
17 was also not sufficiently investing in its sales and marketing team headcounts. According to CW1 and
18 CW7, Nutanix implemented hiring freezes of all sales personnel during the Class Period. Moreover, as
19 CW4 recalled, the marketing department did not have enough personnel in the digital marketing group
20 to spend the money that was allocated to it.

21 137. CW5 similarly recalled that Nutanix did not properly invest in the development of global
22 accounts in terms of team sizes. For example, while a global account team at Nutanix would typically
23 include CW5 and one engineer, that same global account at Cisco or Dell would be staffed with eight to
24 twelve people. Thus, Nutanix struggled to close deals on large accounts.

25 138. The cumulative effect of the undisclosed attrition, in conjunction with Nutanix's
26 undisclosed hiring freeze, was to significantly inflate Nutanix's margin. These effects were by design.

1 139. As part of the transition to a software and subscription-based company, Defendant
2 Williams told investors to focus their attention on Nutanix’s gross profit margins, rather than revenue,
3 as indicators of Company growth, stating:

4 [W]e believe *the best metric to measure our progress during this transition period*
5 *to a software centric model is gross profit dollars and growth in gross profit*
6 *dollars* and not revenue or revenue growth as revenue and even gross margins could
be somewhat fluid during this transition.

7 140. As Defendant Williams would later admit on February 28, 2019, Nutanix was impacted
8 “by a shortage of sales reps in the first half of the fiscal year, *resulting in an under-spend by several*
9 *million dollars.*” In turn, this underspend allowed gross profits to increase. Having repeatedly investors
10 to focus on gross profit, Defendants knew it was imperative that Nutanix’s gross profit margins stayed
11 strong.⁸

12 141. The lack of spending on sales personnel was reflected in the quality of the Company’s
13 sales representatives. According to CW4, Nutanix’s sales teams were inadequately prepared to sell some
14 of Nutanix’s products due, in part, to having too many products on the market. According to CW4,
15 Nutanix’s sales team was simply “not built to handle the pipeline” and was inadequately prepared to sell
16 the Company’s products: “General sales readiness was poor.” CW5 similarly recalled that Nutanix’s
17 salesforce struggled because of an inexperienced salesforce.

18 142. Defendant Pandey ultimately confirmed CW4 and CW5’s accounts on February 28, 2019
19 when he admitted during the quarterly conference call that Nutanix “took too much on in terms of new
20 products in 2018” and the “sales force in the channel being a little bit confused” which hurt the
21 Company’s overall sales and pipeline. In a subsequent May 30, 2019 statement in a CRN news article,
22 titled “*Nutanix Blames Revenue, Earnings Miss on Transition to Subscription Model*,⁹ Defendant
23 Williams admitted the Company’s sales representatives had still not received the necessary training to
24 adequately explain and promote the Company’s new subscription model: “Nutanix is also experiencing
25

26 _____
27 ⁸ Gross profit is the profit Nutanix makes after deducting the variable costs associated with making
and selling its products and services. One such cost deduction is the money spent and allocated to sales
and marketing spend, including lead generation spend.

28 ⁹ <https://www.crn.com/news/data-center/nutanix-blames-revenue-earnings-miss-on-transition-to-subscription-model>.

1 a slowdown in its sales cycle as the company's reps, along with its distributors, channel partners, and
 2 customers will require education on the new [subscription] model, although that will change as
 3 subscription pricing becomes the norm."

4 **G. Nutanix "Pulls In" Future Sales to the Current Quarters to Make Quarterly Sales**
 5 **and Earnings Forecasts and Offset its Declining Sales Pipeline**

6 143. According to CW1, throughout this witnesses' employment, Nutanix routinely "pulled
 7 in" sales orders from future periods in order to meet projected sales numbers for the current quarter. By
 8 pulling in orders, it meant that future periods were depleted of orders in the pipeline so that the same
 9 thing would have to be done in the next period. CW1 stated that by pulling in orders, a company would
 10 inevitably hit a point when all the company's customers have "over-procured" and have bought more
 11 than they thought they needed and therefore could not buy anymore. Thus, at some point, there would
 12 be no more orders to "pull in." CW1 referred to this practice as "draining the swamp."

13 144. According to CW1, Nutanix estimated every quarter what the Company could close in
 14 sales and this would then be allocated to each of the Company's five regions (Southeast, Northwest and
 15 California, Southwest, Midwest and Central). Sales people were then asked to look at orders they were
 16 working on that were expected to close in the following two to three months and see what could be
 17 pulled in for the present quarter in order to meet the forecasted sales for their region. While CW1 recalled
 18 that the practice of pulling in orders occurred throughout this witness's tenure at Nutanix, CW1 recalled
 19 that this practice became more prevalent in calendar 2018.

20 145. In particular, CW1 recalled that for two quarters in 2018, this witness' managers told
 21 CW1 that the Company overall was "significantly behind" on achieving the necessary revenue goals
 22 and it was going to be necessary for CW1's region to pull in \$3.8 million of orders before quarter end.

23 146. CW2 confirmed the Company's practice of pulling-in future sales to the current quarter
 24 to meet quarterly forecasts. According to CW2, pulling in sales from future quarters was going on at
 25 Nutanix throughout CW2's employment. As CW2 explained, a company like Nutanix typically likes to
 26 have 2.5 to 3 times the amount of prospective deals in the pipeline to make quarterly targets because
 27 only a percentage of deals will actually close during the period. CW6 similarly confirmed that companies
 28

1 like to have three to four times the amount of prospective deals as needed in the pipeline in any given
2 quarter.

3 147. CW1 recalled that by April or May 2018, it was “very obvious” that Nutanix’s pipeline
4 was drying up and in trouble. CW3 similarly recalled that by May 2018, the pipeline was “pretty dry.”
5 As discussed below, Defendants were aware of the Company’s pipeline issues from quarterly All Hands
6 meetings and reports generated from the Salesforce.com and Clari systems. *See* Section V.I., *infra*.

7 148. According to CW1, during CW1’s employment it was routinely communicated by upper
8 management “loud and clear” that Nutanix needed more revenue and senior sales management would
9 be reviewing every prospective deal that had been entered into the Salesforce.com system to report on
10 what deals could be pulled in. Indeed, according to CW1, this witness had been told that Nutanix’s
11 National Sales Manager, Craig Bumpus (“Bump”), would be reviewing every deal in Salesforce.com on
12 a quarterly basis and then personally calling the sales representative about the status of the deals. CW1
13 stated that this was an extraordinary high level of involvement by such a senior executive (who reported
14 directly to Defendant Pandey) to be looking at individual deals, indicating the severity of management’s
15 revenue and pipeline concerns.

16 149. CW1 stated that throughout calendar 2018, the need for revenue was “presented as a
17 pending disaster every quarter” at Nutanix.

18 150. In response to Nutanix’s decreasing sales pipeline, the Company began offering
19 customers steep discounts in order to induce them to buy Nutanix products and close deals.

20 151. According to CW6, Nutanix had both standard deal pricing and non-standard deal pricing
21 and it was “all over the place.” Nutanix would do whatever was necessary pricing-wise to get deals.
22 CW6 further recalled that Nutanix discounted deals as much as 75-80% on hardware and 90% on
23 software.

24 **H. Nutanix Begins Preparing its “*You Decide*” Campaign to Directly Compete with**
25 **Dell/VMware, which it Launched in January 2019 in an All Out War Against**
26 **VMware**

27 152. In January 2019, Nutanix launched its “*You Decide*” campaign. According to Defendants,
28 the campaign:

1 [P]romotes expanded customer choice in server vendor, hypervisor and cloud
 2 provider. It is designed to increase lead generation returns by highlighting the
 financial, operational and personal benefits of the Nutanix platform.

3 153. To promote the *You Decide* campaign, Defendants also posted a You Tube video, poster
 4 site ads, and web microsite pages extolling a customer's ability to stop paying the so-called "vTax" (or
 5 VMware tax). According to a January 24, 2019 article, *Fight, fight, fight. Gloves are off again between*
 6 *Nutanix and VMware*,¹⁰ the video featured Nutanix Chief Marketing Officer, Ben Gibson, as stating:

7 The IT market is full of noise these days: fact free competitive claims tweeted with
 8 reckless abandon, incumbent vendors promising agility yet in reality locking you
 9 in. And when you try to break free of operational, financial and even quality of life
 10 burdens, defensive legacy vendors who attempt to strong-arm you with fear,
 uncertainty and doubt.

11 154. Gibson asked viewers of the video, "Do you want hardware and hypervisor lock-in or
 12 freedom of choice? True up surprises or a pay as you grow cloud ready business?" The media reporting
 13 on the *You Decide* campaign called it a "direct assault on VMware's market."

14 155. VMware responded to Nutanix's attack by sending a letter via LinkedIn to VMware
 15 customers stating their name and brand "is being used in a vitriolic anti-VMware and anti-Dell campaign
 16 by Nutanix." In the letter, Poonen stated VMware has "total respect" for customers picking Nutanix
 17 over his employer's tech, and "humbly" asked if customers could stop publicly supporting the *You*
 18 *Decide* campaign:

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https://www.theregister.co.uk/2019/01/24/nutanix_and_vmware_suffering_from_prickly_heat_syndrome/

1 Thank you for connecting with me on LinkedIn. I am
 2 COO of VMware, and we look forward to continuing
 3 to serve you as a partner. We have tremendous
 4 respect for your success in the ~~the~~, and your
 domain experience in the area of VDI and
 Hyperconverged.

5 The reason for my message to you is this. I wanted
 6 to let you know that your name and your company's
 brand is being used in a vitriolic anti-VMware and
 7 anti-Dell campaign by **Nutanix** - see the content on
 this website <https://www.nutanix.com/decide>, and
 8 also see screenshot at the bottom of my email, with
 your company's brand and your quote.

9 We totally respect that customers might pick different
 technologies, and maybe you prefer Nutanix for
 10 Hyperconverged in your IT systems, and in your
 partner practice, over VMware. Yet, I think you are
 11 still a VMware partner, and more importantly VMware
 is a part of Dell Technologies, so this ad campaign is
 12 a frontal attack on BOTH VMware and Dell, and they
 are using your company brand in this vitriolic
 13 campaign. Not sure, that is what a great partner
 organization like yours, wants your brand to be
 14 leveraged for.

15 I would humbly ask if you can ask for your name to
 be removed from this vitriolic Nutanix campaign, we
 16 would appreciate it. We don't want it to affect your
 brand, as also your partnership with VMware AND
 17 Dell - today or into the future.

18 Separately, on your decision to use Nutanix over
 19 VMware in HyperConverged, if there's anything we
 can do better, to earn your confidence, we would
 20 love to be considered again there, or in other areas
 21 .”

22 156. The feud continued to escalate with Defendant Pandey calling Poonen's letter “bullying:”

23 The veiled threat — “we don't want it to affect your brand” — in this email is an
 24 act of bullying that has no place in a world where the customer is all powerful. Such
 bullying is what creates movements, rebellions, and eventual independence from
 unfair taxation.

25 157. As a precursor to the campaign, Defendant Pandey challenged VMware to a proof-of-
 26 concept dual during Nutanix's November 27, 2018 first quarter fiscal 2019 conference call, citing a Q1
 27
 28

customer win and stating, “[i]n fact, our dominance in the core is why VMware avoids doing PoC’s in accounts when we are in a head-to-head fight.”

158. The *You Decide* campaign was portrayed as a method to generate interest in Nutanix:

Launched “*You Decide*” Campaign to Expand Brand Reach into Market: This new campaign promotes expanded customer choice in server vendor, hypervisor and cloud provider. *It is designed to increase lead generation returns* by highlighting the financial, operational and personal benefits of the Nutanix platform.

159. The *You Decide* campaign was the nail in the coffin for the Nutanix/Dell relationship and had a further and immediate negative impact on Nutanix’s sales pipeline because Dell and VMware viewed this move as declaring war and began to aggressively come after Nutanix where Dell did not even recommend Nutanix products under *any* circumstance.

160. CW4 stated that the *You Decide* campaign initially received a lot of attention from customers and gained some traction, but ultimately had the longer-term impact of “riling up a sleeping giant” by causing Dell and VMware to have their sales forces deliberately go after Nutanix. CW4 stated that if there was a negative sentiment propagated against Nutanix as a result, then it would make it harder to close deals. CW4 is aware of this because this witness attended meetings in calendar 2019 where the sales force indicated they could not close deals. CW4 also recalled that when the *You Decide* campaign first started, VMware began competing for key words that Nutanix used for digital marketing, causing those words to cost more. Key words can cost anywhere from \$10 to \$100 per word and then \$100 per click, so more expensive key words can add up quickly.

161. As Morgan Stanley would later report on April 9, 2019, “the relationship is likely being phased out given Dell’s prioritization to sell solutions with EMC and VMware. . . . Dell’s sales force is no longer recommending the [Nutanix] product in new HCI deployments in favor of its own wholly-owned solutions.”¹¹

162. The loss of Dell was substantial, as Dell was responsible for generating upwards of 40% of Nutanix’s new customers. In fact, in the second quarter of fiscal 2017, Nutanix had added nine new Global 2000 logos with Dell, *alone*.

¹¹ Katy L. Huberty, HPE Partnership Helps NTNX Get Back On Track, Morgan Stanley (Apr. 9, 2019)

163. Nutanix's *You Decide* campaign came on the heels of its August 2018 acquisition of Frame—a direct competitor of Citrix, another important Nutanix client. As a result of acquiring Frame, Nutanix almost instantly lost future business and sales from Citrix. According to CW4, this witness attended marketing meetings in calendar 2018 where the negative impact of the Frame acquisition on Citrix was discussed. While Nutanix was sensitive to the likelihood that the acquisition could be viewed negatively by Citrix, the attitude of Nutanix management was, according to CW4, to “roll the dice.”

164. VMware also viewed Nutanix's frame acquisition as a move to compete with VMware. A tweet from VMware's CEO, Poonen, mocked Nutanix for “copycatting” VMware by purchasing Frame.¹²

165. The loss of sales from Dell and Citrix would cause Nutanix to enter into a strategic partnership with HPE in April of 2019.

I. Defendants Were Aware that Nutanix Was Experiencing Significant Declines in Sales and Pipeline Projections from Pipeline Reports in the Salesforce.com System and Regular “All-Hands” and QBR Meetings

166. Throughout the Class Period, Defendants were aware that Nutanix's sales pipeline, billings and actual sales were being adversely affected by Dell favoring VMware and Nutanix's insufficient sales spending from detailed reports and regular meetings.

167. As an initial matter, the Individual Defendants admittedly comprise Nutanix's “chief operating decision maker [which] . . . allocates resources and assesses financial performance based upon discrete financial information at the consolidated level.” Indeed, CW1 described Defendant Pandey as a “very hands-on CEO” that undoubtedly would have been very informed about the status of Nutanix's sales pipeline. CW5 echoed this sentiment, explaining that this witness had, in fact, regularly met with Defendant Pandey about this witnesses' pipeline relating to new customers and sales leads for Global accounts. During these customer meetings, CW5 briefed Pandey on the status of prospective financial institutional customers, which included an “executive briefing” presentation. The presentation included virtually anything CW5 considered relevant for a likely meeting between Pandey and the prospective new customer, such as details regarding the customer representative, the strategic relationship Nutanix

¹² <https://www.crn.com/news/data-center/300107541/vmware-coo-slams-copycatting-nutanix-following-frame-acquisition.htm>.

1 was trying to achieve with the customer, details of what the customer was trying to achieve and how
2 Nutanix could help accomplish this, whether a deal was in development or had advanced to a proof of
3 concept being submitted and what kinds of conversations had occurred with the customer, among other
4 things. The purpose of CW5's meetings with Pandey was to facilitate an "executive alignment" (i.e.,
5 between the customer and Pandey), so that the customer would feel taken care and that Nutanix was
6 "100% behind them." According to CW5, defendant Williams was sometimes present for such customer
7 meetings. CW5 said "absolutely" Defendant Pandey would have similarly accompanied other sales
8 personnel to visit non-Global Accounts, because it was always a goal at Nutanix to get senior executives
9 in front of customer executives.

10 168. In addition, according to former Nutanix employees, Nutanix had a number of systems
11 and personnel in finance and sales operations dedicated to tracking the sales pipeline. CW1, CW3, CW5
12 and CW7 recalled that sales personnel were supposed to report and track their pipeline in
13 Salesforce.com. CW1 and CW5 explained that Salesforc.com was Nutanix's internal software used to
14 manage both existing and prospective accounts, as well as customer leads. According to CW1,
15 information about every customer at any point in the sales cycle was entered into the Salesforce.com
16 system, including whether a customer was potentially interested in buying from Nutanix, customers that
17 had already purchased from Nutanix (and whom Nutanix wanted to sell more products to) and "all
18 prospective deals." Salesforce.com used "a special methodology" to categorize customers, i.e., whether
19 they were a lead, a new customer, whether there was an opportunity with the customer and the status of
20 that opportunity, including whether the opportunity was in "the discovery stage," if a proof of concept
21 was being done, whether a proposal had been extended, if the deal was in negotiation, whether the
22 customer had made a commitment, whether the deal had closed, or if a deal had been lost.

23 169. CW5 similarly recalled that Nutanix used Salesforce.com to track its sales pipeline,
24 including percentage of likelihood a deal would close and when it would close. CW2 stated that
25 Salesforce.com was used for sales pipeline reporting and it was how the pipeline was managed. CW1
26 and CW2 characterized salesforce.com as the "source of truth" and the "single source of truth,"
27 respectively. According to CW1, if the potential deal was not in salesforce.com, it did not exist.
28

1 170. CW1 and CW7 stated that the Individual Defendants had access to Salesforce.com and
2 the pipeline reports therein, which could be run on a Company-level, by region and even by individual
3 sales person. CW1 stated this witness was confident that defendant Pandey was receiving the pipeline
4 reports from Salesforce.com on a weekly basis.

5 171. According to CW1, Nutanix also used a system called Clari to track the sales pipeline
6 and the “health” of the pipeline. CW1 stated that Clari extracted data from Salesforce.com and then
7 rated the deals in various ways. For example, CW1 stated some deals might go from green status to
8 yellow, or from yellow to red, if a deal had stayed in the pipeline too long or the value of the deal had
9 declined. CW1 updated this witness’ Clari forecast weekly and is sure that Nutanix’s senior executives
10 were given Clari reports.

11 172. According to CW1 and CW3, the Salesforce.com pipeline report would have showed
12 Nutanix’s sales pipeline declining in 2017 and throughout 2018. Moreover, CW1 recalled that by April
13 or May 2018, it would have been “pretty obvious” from the pipeline reports that Nutanix’s pipeline was
14 drying up and in trouble because it was clear there were not as many good leads coming to allow for the
15 creating of opportunities to close sales and the forecast was much smaller. CW3 similarly recalled
16 Nutanix’s sales pipeline was “pretty dry” by May 2018, which would have been reflected in the
17 Salesforce.com pipeline reports.

18 173. CW1 stated that Salesforce.com also contained a “touch box,” which detailed what was
19 being observed about Dell promoting its own products instead of Nutanix products. CW1 personally
20 reported issues with Dell violating the OEM agreement to Nutanix alliance partners via email.

21 174. According to CW1, the decrease in sales pipeline and the fact Dell was not providing
22 Nutanix with any *new* sales leads was discussed during quarterly All-Hands meetings in calendar 2018
23 attended by Defendants Pandey and Williams, CW1 and Company employees. During the All-Hands
24 meetings, CW1 recalled that Defendant Pandey stated the percentage of Nutanix revenue and sales leads
25 received from Dell and the Dell alliance partners employed by Nutanix discussed that Dell was not
26 providing any new leads and was compensating its salesforce to sell VMware instead of Nutanix
27 products. At these meetings, Nutanix sales people also expressed concerns about the lack of sales leads
28 and difficulties they were having closing deals.

175. CW5 similarly recalled participating in daily review calls that occurred every day, sometimes twice per day, in the two to three weeks leading up to the quarter end. During these calls, CW5 provided updates on the evolving status of deals.

176. Thus, Defendants were aware of Nutanix's declining sales pipeline throughout the Class Period.

VI. MATERIALLY FALSE AND MISLEADING CLASS PERIOD STATEMENTS

177. In order to conceal the Company's true financial condition from investors throughout the Class Period, Defendants issued a series of material misstatements and omitted material facts in the Company's public filings, press releases, and other documents concerning Nutanix's: (1) lead generation spending; (2) sales personnel hiring; (3) product quality for HCI technology; (4) gross margin; and (5) relationship with Dell and competitive advantage. The material misstatements and omissions suggested that Nutanix was investing heavily in its sales and marketing and creating a pipeline of future sales and customers that were generating revenue for the Company. Meanwhile, Nutanix had kept its spending on sales and marketing flat and redirected such funds to engineering, meaning there were no new sales or pipeline, leading to a significant adverse financial impact on the Company, at the expense of product quality for its "core" HCI technology.¹³

A. Materially False and Misleading Statements in the November 30, 2017 Press Release

178. The Class Period starts on November 30, 2017 when Nutanix issued a press release after the close of market announcing the Company's financial results for first fiscal quarter ended October 31, 2017 ("November 2017 Press Release").

179. In the November 2017 Press Release, Defendant Williams falsely stated "[l]ooking forward, **we expect continued strong top line growth in the remainder of fiscal 2018**" indicating Nutanix had been continuing to invest in sales and marketing to build a pipeline that would support continued future sales growth.

¹³ The alleged materially false and misleading statements and omissions are bolded and underlined. Nonbolded statements are included for context.

180. The statement above in ¶179 was materially false and misleading when made because, unbeknownst to investors: (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019; (ii) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (iii) according to CW6, management’s focus on engineering and new products caused the quality of its “core” HCI technology to suffer during the second half of 2017, including its functionality where one-click updates were no longer available, resulting in decreasing sales and sales pipeline; (iv) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period, had “not kept pace with [its] bullish sales hiring goals;” (v) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and thus had not been providing the Company with any new sales leads; (vi) as a result of (i) through (v) above, Nutanix was experiencing a large disruption in the Company’s sales execution negatively impacting the Company’s sales pipeline and slowing the Company’s sales growth, which CW1, CW3, CW5 and CW6 stated would have been reflected in Nutanix’s Salesforce.com pipeline reports; (vii) Defendants did not honestly “expect” continued “strong” topline growth because Nutanix had purposely underinvested in lead generation before in 2016 and saw the Company’s pipeline become depleted as a result; and thus (viii) as a result of the foregoing, Defendants knew Nutanix would not experience “strong” top line growth for the remainder of fiscal 2018.

181. With the promise of an aggressive shift to focus on software sales, numerous analysts increased their ratings for Nutanix. RBC Capital Markets analyst Matthew Hedberg raised his target from \$37.00 per share to \$40.00 per share.

B. Materially False and Misleading Statements During the November 30, 2017 Conference Call

182. On November 30, 2017, after market close, the Individual Defendants held an investor conference call with analysts to discuss the Company’s first quarter 2018 financial results (“November 2017 Call”) During the November 2017 Call, Defendant Pandey informed investors that although

operating expenses for hiring had been less than expected, this would not continue as the Company engaged in “[a] lot of hiring”:

On the expenses, yes, I mean we came in a little under hiring’ it wasn’t intentional; we didn’t try to drive it down. We’ve still got, obviously, a lot of priorities and things like that. So we will continue to – you’ll see expenses, so I don’t think we’ll continue to be massively under. There is lot of things going on, lot of hiring and things like that.

183. The statements above in ¶182 were materially false and misleading when made because, according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period; therefore, Defendants were not, and had no intention of, hiring sales personnel, let alone “[a] lot” of new hires and their under hiring was intentional. As Defendants ultimately admitted on February 28, 2019, “over the past few quarters, [Nutanix has] not kept pace with our bullish sales hiring goals.”

184. When asked by analyst Param Singh whether the new customer number had declined, Defendant Pandey assured Singh that the number of new customers would *increase* in the upcoming quarters:

Param Singh

. . . . It also looks like the number of new customers that came into your installed base was lower than the past few quarters, so maybe you could comment on that as well. Thank you.

Dheeraj Pandey

. . . . On the customer account, I wouldn’t look too much into that. Q1 is always little softer from a customer perspective, but we added a decent amount of customers they are and Q2 will pop up naturally, which it usually does quite a bit from the Q1 level.

185. The statement above in ¶184 was materially false and misleading when made because it gave the misleading impression that Defendants’ were consistently adding *new* customers when, in reality, Nutanix admittedly “underspent . . . on new customers” and both the pipeline and number of new customers were *decreasing* because: (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019;” (ii) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (iii) according to CW6, management’s focus on new products caused the

quality of its “core” HCI technology to suffer during the second half of 2017 and throughout 2018, including its functionality where one-click updates were no longer available, resulting in decreasing sales and sales pipeline; (iv) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period and, admittedly had “not kept pace with [its] bullish sales hiring goals”; (v) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and had not been providing the Company with any new sales leads, which CW1, CW3, CW5 and CW6 stated would have been reflected in Nutanix’s Salesforce.com pipeline reports; (vi) as a result of (i) through (v) above, Defendants knew the number of new customers would not be increasing in fiscal Q2 2018.

186. Defendant Pandey also commented on the effect that transitioning toward a sales model which competed directly with VMware would have on the Company’s customer relationships:

Katy Huberty

Dh[ee]raj, does deemphasizing the hardware increase your chances of new partnerships or even the chance that partners like Dell will increase their commitment to selling your solutions versus their own and then I have a follow up.

Dheeraj Pandey

I think, definitely it reduces friction in the sales motion, both for our sellers and the OEM sellers themselves. That being said, we also expect fully that the market will make its decision and whether they want to get end-to-end support from us or whether they are comfortable actually going through to op-support. So I think we have to hustle to prove that either our OEM partners are very good at support, even at scale or customers who just pick us over going through to op support it-self. **But absolutely, we expect the friction to go down.** . . .

187. The above statements in ¶186 were materially false and misleading when made because, according to CW1, by mid-summer 2017, Dell was already favoring VMware over Nutanix and not providing Nutanix with any new sales leads which CW1, CW3, CW5 and CW6 stated would have been reflected in Nutanix’s Salesforce.com pipeline reports. Thus, Nutanix did not “expect the friction to go down,” as Defendants falsely represented.

188. On this news in the November 2017 Press Release and the November 2017 Call, Nutanix stock rose from a close price of \$32.80 per share on November 30, 2017, to a closing price of \$36.06 per share on December 1, 2017—an increase of nearly 10% on unusually heavy trading volume.

C. **Materially False and Misleading Statements in the December 13, 2017 Form 10-Q**

189. On December 13, 2017, Nutanix filed its quarterly report on Form 10-Q for the period ended October 31, 2017 (the “December 2017 10-Q”) with the SEC, which was signed by Defendants Pandey and Williams. The December 2017 10-Q represented that Nutanix’s **“sales and marketing efforts [were] expand[ing]”** and that the Company was **“spend[ing] substantial time and resources on [its] sales efforts.”**

190. According to the December 2017 10-Q, Nutanix was **“invest[ing] heavily”** in its global sales force and was going to continue these investments:

We continue to invest heavily in the growth of our business, including the development of our solutions and build-out of our global sales force . . . We have also expanded our international sales and marketing presence by continuing to build out our global teams. We intend to continue to invest in our global engineering team to enhance the functionality of our operating system, introduce new products and features and build upon our technology leadership, as well as **continue to expand our global sales and marketing teams.**

191. These investments were purportedly **“aggressive[]”** in order to reach Nutanix’s end customers:

We plan to continue to strengthen and expand our network of channel and OEM partners to increase sales to both new and existing end-customers. **We believe that increasing channel leverage by investing aggressively in sales enablement and co-marketing with our partners will extend and improve our engagement with a broad set of end-customers.**

192. Reiterating the Company’s focus on increasing its investment in sales and marketing, Nutanix further represented that these investments were intended to grow its new customer base:

Investment in Growth

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity, and as part of this, we intend to specifically expand our focus on opportunities with major accounts and large deals, which we define as transactions over \$500,000 in committed value. **We have significantly increased our sales and marketing personnel, which grew by 32% from October 31, 2016 to October 31, 2017 . . . We intend to continue to grow our global sales and marketing team to acquire new end-customers and to increase sales to existing end-customers.**

193. Nutanix also falsely represented that, as part of its efforts to “continually increase[] [its] marketing activities,” the Company was increasing its sales and marketing headcount:

Sales and marketing expense increased in the three months ended October 31, 2017 compared to the same prior year period primarily due to higher personnel costs and sales commissions, as our sales and marketing headcount increased by 32% from October 31, 2016 to October 31, 2017. Additionally, as part of our efforts to penetrate and expand in global markets, we have continually increased our marketing activities related to brand awareness, promotions, trade shows and partner programs.

194. The December 2017 10-Q reiterated that:

We have expanded our overall business and operations significantly in recent periods. Our employee headcount increased significantly since our inception, and we may have significant headcount increases in the future. We anticipate that our operating expenses will increase in the foreseeable future as we scale our business, including in developing and improving our solutions, expanding our sales and marketing capabilities and global coverage, and in providing general and administrative resources to support our growth.

195. The December 2017 Form 10-Q further represented that, as a result of Nutanix’s increased focus on sales and marketing, these efforts were being reflected in the Company’s increased product revenue.

The increase in product revenue for the three months ended October 31, 2017 reflects increased domestic and international demand for our solutions as we continued to penetrate and expand in global markets through increased sales and marketing activities.

196. The statements above in ¶¶189-95 were materially false and misleading when made because: (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019;” (ii) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (iii) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period and, as later admitted on February 28, 2019, had “not kept pace with [its] bullish sales hiring goals;” (iv) according to CW5, Nutanix had not allocated sufficient sales resources to adequately allow CW5 to land large accounts; (v) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and thus was not “comarketing” with

1 Nutanix to sell Nutanix products; and thus (vi) Nutanix admittedly was not investing in its sales and
2 marketing, let alone “aggressively” or “heavily.”

3 197. Additionally, Nutanix issued false, misleading, and woefully incomplete risk factors of
4 investing in Nutanix which stated, in pertinent part:

5 **A shift in our relationships with our OEM partners could adversely affect our**
6 **results of operations.**

7 Our relationships with our original equipment manufacturer, or OEM, partners continue
8 to shift as industry dynamics change, and **our OEM partners may be less willing to**
9 **partner with us as an OEM or otherwise as such shifts occur.** For example, Dell
10 Technologies is not just an OEM partner, but also a competitor of ours, and accounted
11 for over 10% of our total billings in each of fiscal 2016 and fiscal 2017. In September
12 2016, EMC Corporation, or EMC, was acquired by Dell. As a result of the acquisition,
13 **Dell may be more likely to promote and sell its own solutions,** including those from
14 EMC’s complementary product portfolio, over our products, **or cease selling or**
15 **promoting our products entirely.** Also, **Dell** holds a majority of outstanding voting
16 power in VMware Inc., or VMware, and **could combine the Dell, EMC and VMware**
17 **product portfolios into unified offerings optimized for their platforms.** **If Dell**
18 **decides to sell its own solutions over our products, that could adversely impact our**
19 **OEM sales and harm our business, operating results and prospects, and our stock**
20 **price could decline.**

21 198. The above statements in ¶ 197 were materially false and misleading when made because
22 according to CW1, beginning in the summer of 2017, Dell was promoting VMware instead of Nutanix
23 products and stopped providing Nutanix with any new sales leads, causing Nutanix’s sales and pipeline
24 to significantly decline, which CW1, CW3, CW5 and CW6 stated would have been reflected in
25 Nutanix’s Salesforce.com pipeline reports. Thus, Defendants’ purported risk disclosure had already
26 materialized.

27 199. On this news in the December 2017 10-Q, Nutanix’s stock price increased from a closing
28 price of \$35.34 per share on December 13, 2017 to \$35.45 per share on December 14, 2017.

29 **D. Materially False and Misleading Statements in the March 1, 2018 Press Release**

30 200. On March 1, 2018, Nutanix issued a press release, also attached to a Form 8-K filed with
31 the SEC on March 1, 2018, announcing the Company’s financial results for its second fiscal quarter
32 ended January 31, 2018 (“March 2018 Press Release”). In the March 2018 Press Release, Defendant
33 Pandey touted Nutanix’s purported success in executing large deals:

Our continued success with Global 2000 customers, the strength of our large deal execution and record number of new customers prove that we are reducing friction for our customers and providing them with a consumer-grade experience that is unmatched.

201. The statement above in ¶200 was materially false and misleading when made because, unbeknownst to investors: (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019; (ii) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (iii) according to CW6, management’s focus on engineering and new products caused the quality of its “core” HCI technology to suffer during the second half of 2017 and throughout 2018, including its functionality where one-click updates were no longer available, resulting in decreasing sales and sales pipeline; (iv) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period, had “not kept pace with [its] bullish sales hiring goals”; (v) according to CW1, CW2, CW6 and CW7, Nutanix’s headcount for sales personnel was actually *decreasing* because Nutanix was experiencing significant turnover of its sales personnel in 2018; (vi) according to CW4, Nutanix had introduced too many products too fast in calendar 2018 and Nutanix’s sales staff were inadequately trained or prepared to sell the Company’s products—facts Defendants ultimately admitted on February 28, 2019; (vii) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and thus had not been providing the Company with any new sales leads; (viii) according to CW1, since the beginning of calendar 2018, Dell had changed the compensation structure for its salesforce to pay higher commissions for sales of VMware; (ix) CW5 stated that, as a result of (i) through (iv) above, this witness was unable to close deals with large customers; and thus (x) Nutanix was not having “continued success” with large Global 2000 customers, rather, according to CW5, the Company was only able to sell to existing customers. Moreover, as a result of (i) through (viii) above, Nutanix was not obtaining a “record number” of “new” customers. Rather, unbeknownst to investors, according to CW1 and CW2, Nutanix was engaging in the misleading practice of “pulling in” future sales to the current quarter in order to

1 give investors the false impression that Nutanix was keeping pace with prior growth and increasing its
2 pipeline with new customers.

3 **E. Materially False and Misleading Statements in the March 1, 2018 Conference Call**

4 202. On March 1, 2018, after market close, the Individual Defendants held an investor
5 conference call with analysts to discuss the Company's second quarter 2018 financial results ("March
6 2018 Call"). During the March 2018 Call, Defendant Williams explained that the Company was focused
7 on increasing its hiring efforts:

8 Our gross margin for the quarter was 63.5%, which is at the high-end of our guidance and
9 compares to 63.2% in the year ago quarter and 61.9% in the prior quarter . . . Our operating
10 expenses were \$202 million, below our guidance by \$8 million, primarily due to the timing
11 of new hires. **We have a full-court press on hiring in the second half for the fiscal year
12 to try to make up this headcount shortfall.**

13 203. Defendant Pandey reiterated and emphasized during the March 2018 Call that sales hiring
14 was a priority:

15 **Jack Andrews**

16 As a quick follow-up, could you touch on what are your hiring priorities, I guess over the
17 next couple of quarters?

18 **Dheeraj Pandey**

19 Yes. **I think, you probably could even take a look at our website, it's pretty evident
20 that we are big on hiring, there is massive market ahead of us . . . So I think there is
21 a big push to increase the awareness for the company and actually get more account
22 coverage, which is basically the focus for the business.**

23 204. The statements above in ¶¶202-03 were materially false and misleading when made
24 because: (i) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel
25 during the Class Period; (ii) according to CW1, CW2, CW6 and CW7, Nutanix's headcount for sales
26 personnel was actually *decreasing* because Nutanix was experiencing significant turnover of its sales
27 personnel in 2018; and (iii) therefore, Defendants were not, and had no intention of, hiring sales
28 personnel and certainly were not "big on hiring." As Defendants ultimately admitted on February 28,
2019, "over the past few quarters, [Nutanix has] not kept pace with our bullish sales hiring goals."
Moreover, since fiscal Q4 2017, Nutanix decided during the "planning process" to keep lead generation

1 spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation”— facts
 2 Defendants later admitted on February 28, 2019. Thus, Defendants were not making any sort of “push”
 3 to “increase awareness for the company” as they falsely represented to the market.

4 205. During the March 2018 Call, Defendant Pandey also falsely reassured analysts that Dell’s
 5 and VMware’s evolving business relationship would not be detrimental to Nutanix:

6 **Wamsi Mohan**

7 Thank you. And if I could just follow-up, there is a lot of noise around what can happen
 8 at Dell VMware including mergers and reverse mergers. *And sounds from your*
 9 *commentary, you’ve really not seen any change in behavior as it pertains to your*
 10 *relationship.* But, if there were any deal on that side happen, how would you handicap
 11 the probability of somewhat emphasis of Nutanix at Dell?

12 **Dheeraj Pandey**

13 Yes. I mean, we’re waiting and watching. Obviously, it’s difficult to speculate, but what
 14 I’ll say is that I respect Michael Dell as a leader. And if he gets closer to VMware on one
 15 hand, I mean he also has massive routes in server business. And one of his goals and Jeff
 16 Clarke who is the President of the company for the last 30 years, they have actually built
 17 this business on the strength of the server and they would not want to lose that by not
 18 being close to us as well. I mean, there is only two operating systems that are really
 19 merging in this market, one is VMware and one is Nutanix. And given, what I know of
 20 this leadership there, which is one of the things that we continued to see over the last
 21 three, four years, I mean this cloud or EMC and Dell are coming together, what will
 22 happen to XC, what’s going to happen to the Nutanix relationship. We have been feeling
 23 this question for the last 24 months. And I think they are just smart as business people
 24 just like consumer companies who actually know that they can compete with partners
 25 and still have marketplace and app store and all that stuff. I think that’s what Dell is all
 26 about. I think they are getting closer to the VMware, they’ve gotten closer to VMware,
 27 they probably might be one company. **But, I think for them to get close to another**
 28 **operating system would be a smart strategy.**

206. The above statements in ¶205 were materially false and misleading when made because:
 (i) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products
 instead of Nutanix products; (ii) according to CW1, since the beginning of calendar 2018, Dell had
 changed the compensation structure for its salesforce to pay higher commissions for sales of VMware;
 (iii) as a result of (i) and (ii), Dell had not been providing the Company with any new sales leads; and
 thus (iv) Nutanix’s sales and pipeline significantly declined, which CW1, CW3, CW5 and CW6 stated
 would have been reflected in Nutanix’s Salesforce.com pipeline reports and, according to CW1, were

discussed at quarterly All-Hands meetings attended by Defendants Pandey and Williams. Accordingly, Defendant Pandey's statements were false and misleading and lacked a reasonable basis to promote Nutanix's relationship with Dell in a rosy light.

207. On this news in the March 2018 Press Release and the March 2018 Call, Nutanix stock increased from a closing price of \$36.20 per share on March 1, 2018 to \$38.87 per share on March 2, 2018.

F. Materially False and Misleading Statements in the March 15, 2018 Form 10-Q

208. On March 15, 2018, Nutanix filed its quarterly report on Form 10-Q for the period ended January 1, 2018 (the "March 2018 10-Q") with the SEC, which was signed by Defendants Pandey and Williams.

209. According to the March 2018 10-Q Nutanix was "invest[ing] heavily" in its global sales force and was going to continue these investments:

We continue to invest heavily in the growth of our business, including the development of our solutions and build-out of our global sales force . . . We have also expanded our international sales and marketing presence by continuing to build out our global teams. We intend to continue to invest in our global engineering team to enhance the functionality of our operating system, introduce new products and features and build upon our technology leadership, as well as **continue to expand our global sales and marketing teams.**

210. These investments were purportedly "aggressive[]" in order to reach Nutanix's end customers:

We plan to continue to strengthen and expand our network of channel and OEM partners to increase sales to both new and existing end-customers. **We believe that increasing channel leverage by investing aggressively in sales enablement and co-marketing with our partners will extend and improve our engagement with a broad set of end-customers.**

211. Reiterating the Company's focus on increasing its investment in sales and marketing, Nutanix further represented that these investments were intended to grow its new customer base:

Investment in Growth

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity, and as part of this, we intend to specifically expand our focus on opportunities with major accounts and large deals, which we define as transactions over \$500,000 in committed value. **We have significantly increased our sales and marketing personnel, which grew by 30% from January 31, 2017 to January 31, 2018 . . . We**

intend to continue to grow our global sales and marketing team to acquire new end-customers and to increase sales to existing end-customers.

212. Nutanix represented that, as part of these efforts to “**continually increase[] [its] marketing activities,**” the Company was increasing its sales and marketing headcount:

Sales and marketing expense increased in the three months ended January 31, 2018 compared to the same prior year period primarily due to higher personnel costs and sales commissions, **as our sales and marketing headcount increased by 30% from January 31, 2017 to January 31, 2018. Additionally, as part of our efforts to penetrate and expand in global markets, we have continually increased our marketing activities related to brand awareness, promotions, trade shows and partner programs.**

213. The March 2018 10-Q reiterated that:

We have expanded our overall business and operations significantly in recent periods. Our employee headcount increased significantly since our inception, and **we may have significant headcount increases in the future. We anticipate that our operating expenses will increase in the foreseeable future as we scale our business, including** in developing and improving our solutions, **expanding our sales and marketing capabilities and global coverage,** and in providing general and administrative resources to support our growth.

214. The March 2018 10-Q further represented that, as a result of Nutanix’s increased focus on sales and marketing, these efforts were being reflected in the Company’s increased product revenue.

The increase in product revenue for the three months ended January 31, 2018 reflects increased domestic and international demand for our solutions as we continued to penetrate and expand in global markets through increased sales and marketing activities.

215. The statements above in ¶¶208-14 were materially false and misleading when made because: (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019;” (ii) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (iii) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period and, as later admitted on February 28, 2019, had “not kept pace with [its] bullish sales hiring goals;” (iv) according to CW5, Nutanix had not allocated sufficient sales resources to adequately allow CW5 to land large accounts; (v) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and since the beginning of calendar

2018, Dell had changed the compensation structure for its salesforce to pay higher commissions for sales of VMware: thus Dell was not “comarketing” with Nutanix to sell Nutanix products; and (vi) Nutanix admittedly was not investing in its sales and marketing, let alone “aggressively” or “heavily.”

216. Additionally, Nutanix issued false, misleading, and woefully incomplete risk factors of investing in Nutanix which stated, in pertinent part:

A shift in our relationships with our OEM partners could adversely affect our results of operations.

Our relationships with our original equipment manufacturer, or OEM, partners continue to shift as industry dynamics change, and **our OEM partners may be less willing to partner with us as an OEM or otherwise as such shifts occur.** For example, Dell Technologies, or Dell, is not just an OEM partner, but also a competitor of ours, and accounted for 13% and 11% of our total billings in fiscal 2016 and fiscal 2017, respectively. In September 2016, EMC Corporation, or EMC, was acquired by Dell. As a result of the acquisition, **Dell may be more likely to promote and sell its own solutions,** including those from EMC’s complementary product portfolio, over our products, **or cease selling or promoting our products entirely.** Also, **Dell** holds a majority of outstanding voting power in VMware Inc., or VMware, and **could combine the Dell, EMC and VMware product portfolios into unified offerings optimized for their platforms. If Dell decides to sell its own solutions over our products, that could adversely impact our OEM sales and harm our business, operating results and prospects, and our stock price could decline.**

217. The above statements in ¶216 were materially false and misleading when made because according to CW1, beginning in the summer of 2017, Dell was promoting VMware instead of Nutanix products and stopped providing Nutanix with any new sales leads, causing Nutanix’s sales and pipeline to significantly decline, which CW1, CW3, CW5 and CW6 stated would have been reflected in Nutanix’s Salesforce.com pipeline reports. Thus, Defendants’ purported risk disclosure had already materialized.

218. The above statements confirmed nearly identical misstatements made in the December 2017 10-Q and served to maintain the artificial inflation in Nutanix’s stock price.

G. Materially False and Misleading Statements in the May 24, 2018 Press Release

219. On May 24, 2018, after market close, Nutanix issued a press release, also attached to a Form 8-K filed with the SEC on May 24, 2018, announcing the Company’s financial results for its third fiscal quarter ended April 30, 2018 (the “May 24 Press Release”).

220. The May 24 Press Release touted the Company’s purported “**strong success in [] hiring**” and “**relentless focus on [] customers**” as driving Nutanix’s growth and success:

“Our continued industry-leading Net Promoter Score proves that a relentless focus on our customers drives our continued success.”

“Demand for our solutions remains strong as we saw 67 percent growth in software and support billings and 55 percent growth in software and support revenue. **We had strong success in our hiring in the quarter that positions us to deliver on our future growth plans**, as we outlined at our March Investor Day,” said Duston Williams, CFO of Nutanix. **“The continued growth in our software and support billings and gross margin expansion in the quarter demonstrates we are successfully executing on our transition to a software-defined business model.”**

221. These above statements in ¶220 were materially false and misleading when made because: (i) according to CW1, Nutanix was not “focus[ing] on [its] customers,” but in fact had decreased spending on Outside Sales associates who were the primary sales contacts for existing customers; (ii) according to CW6, Nutanix’s Net Promotor Score in fiscal Q3 or Q4 2018 was decreasing; (iii) Nutanix admittedly “underspent . . . on new customers” and both the pipeline and number of new customers were ***decreasing*** because: (a) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019; (b) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (c) according to CW6, management’s focus on engineering and new products caused the quality of its “core” HCI technology to suffer during the second half of 2017 and throughout 2018, including its functionality where one-click updates were no longer available, resulting in decreasing sales and sales pipeline; (d) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period, had “not kept pace with [its] bullish sales hiring goals”; (e) according to CW1, CW2, CW6 and CW7, Nutanix’s headcount for sales personnel was actually ***decreasing*** because Nutanix was experiencing significant turnover of its sales personnel in 2018; (f) according to CW4, Nutanix had introduced too many products too fast in calendar 2018 and Nutanix’s sales staff were inadequately trained or prepared to sell the Company’s products—facts Defendants ultimately admitted on February 28, 2019; (g) according to CW1, since the summer of

2017, Dell had been promoting its own VMware products instead of Nutanix products and thus had not been providing the Company with any new sales leads; (h) according to CW1, since the beginning of calendar 2018, Dell had changed the compensation structure for its salesforce to pay higher commissions for sales of VMware; (iv) as a result of (a) and (g) above, according to CW1 and CW3, by April or May 2018, Nutanix's sales leads had materially declined and were "pretty dry," which would have been reflected in the Salesforce.com pipeline reports; (v) although Defendants touted that Nutanix had improved its gross margin by improvements to its business model, in reality, Defendants boosted gross margins by implementing hiring freezes on sales personnel, thereby lowering expenses; and (vi) as a result of the foregoing, Defendants demand for Nutanix's products was weakening, not "strong," as Defendants claimed.

222. Moreover, unbeknownst to investors, according to CW1 and CW2, Nutanix was engaging in the misleading practice of "pulling in" future sales to the current quarter in order to give investors the false impression that Nutanix was keeping pace with prior growth and increasing its pipeline with new customers. Thus, customer demand was not "strong," as Defendants claimed.

H. Materially False and Misleading Statements During the May 24, 2018 Conference Call

223. On May 24, 2018, after market close, the Individual Defendants held an investor conference call with analysts to discuss the Company's third quarter 2018 financial results ("May 2018 Call"). During the May 2018 Call, Defendant Pandey touted Nutanix's performance as "strong across the board with billings, revenue and gross margins all ahead of consensus." Defendant Williams stated that the Company's "continued gross margin expansion is being driven by a transition to a software defined business model."

224. During the May 2018 Call, Defendant Williams also falsely represented to investors that Nutanix was hiring sales teams at record breaking numbers:

Last quarter I mentioned we had fallen behind in our hiring and that we would and I quote here have a full court press on hiring in the second half of the fiscal year to try to make up for this headcount shortfall. Well we executed this full-court press flawlessly and ended up hiring more new employees in Q3 than in any previous quarter by a wide margin.

225. Defendant Williams further added that Nutanix's purported successful hiring resulted in strong results and future growth for Nutanix:

So in summary, in the third quarter, it was a strong one. We had good growth in both billings and revenue, **saw a rapid gross margin expansion, we ramped hiring to support our growth plans** and we delivered on our stated milestones to shift with software defined business model.

226. The above statements in ¶¶223-25 were materially false and misleading when made because: (i) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period, had "not kept pace with [its] bullish sales hiring goals;" (ii) according to CW1, CW2, CW6 and CW7, Nutanix's headcount for sales personnel was actually *decreasing* because Nutanix was experiencing significant turnover of its sales personnel in 2018; (iii) according to CW1, Nutanix had decreased spending on Outside Sales associates who were the primary sales contacts for existing customers; and (iv) as a result of (i) and (iii), Nutanix was only able to boost gross margins by implementing a hiring freeze on sales personnel, which lowered overall expenses, and by not replacing personnel lost through the significant turnover Nutanix was experiencing.

227. During the May 2018 Call, when questioned about new customer acquisitions, Defendants falsely claimed Nutanix was focused on advertising for new customers and generating pipeline:

Wamsi Mohan

Yes, thank you. One for Duston, one for Dheeraj. Duston *the new customer acquisition pace has slow down to about 4% year-on-year and that's been decelerating*, but you also noted like increasing traction with the last several quarters on larger deals and even including software only. So *has there been a change in focus towards larger deals versus new customer footprint?* And your ramp and sales teams that you alluded to in this quarter, how should we expect that recurring going into next quarter as well? I have a follow-up for Dheeraj.

Duston Williams

Sure. Now if anything we are focusing a lot of things and **we've actually had a renewed focus with the channel on new customer logos**. Actually we've got a rebate program in place now and ...

Dheeraj Pandey

For the first time in the history of the company.

1 **Duston Williams**

2 ... for the first time in the history of the company and we're really excited actually now
 3 this have to obviously get into actual bookings. But really excited about what's
 4 happening in the channel with the pipeline for new logos and things like that. So there
 5 has been -- if anything in acceleration or focus there from a new customer. And the
 6 Q3 new logo usually come down. We had a really good Q2 in a lot of different ways
 7 ...

8 228. When asked about whether the Company's shift to software-only products may have
 9 negatively impacted smaller customer growth, Defendants indicated that the answer was no:

10 **Andrew Nowinski**

11 Great. Thanks for taking the question. So I just have maybe a follow-up on your new
 12 customer growth. So I understand the quarterly seasonality with Q1 and Q3 being the
 13 weakest, but if I go back to your Analyst Day, I think \$1.8 billion of that \$3 billion target
 14 was expected to come from non-Global 2000 customers, implying net add about a thousand
 15 per quarter. So I guess, while the transition to software-only certainly has led a larger deal
 16 sizes, are you concerned with the shift may have negatively impacted your smaller
 17 customer growth? And are you still comfortable with that \$3 billion target?

18 * * *

19 **Dheeraj Pandey**

20 And it's an average over 3.5 year period, we are doing some really -- as I said, cool stuff in
 21 the channel with new logos. I don't think anything suffered because of success in larger
 22 deals and things like that. So we're comfortable that's going to bounce around. Let's
 23 see what happens in Q4, and then we will have a discussion.

24 **Andrew Nowinski**

25 Well, I guess, that was more focused on the software transition element. Has that had any
 26 impact on large customer versus small customer growth?

27 **Dheeraj Pandey**

28 We don't think.

Duston Williams

No, I don't think its impacted. Again, the customer can have anything they want. If they
 want an appliance they're going to get an appliance. So there's no reason why that should
impact smaller customers or smaller deals.

229. The statements above in ¶¶227-28 were materially false and misleading when made because they gave the false and misleading impression that Defendants’ were focusing on investing in sales and marketing and increasing headcount when they were not, and that Nutanix’s purported investment in sales and marketing was resulting in increasing customer and pipeline growth when, in reality both the pipeline and number of new customers were *decreasing* because: (i) Nutanix admittedly “underspent . . . on new customers;” (ii) according to CW1, Nutanix had decreased its spending on Outside Sales associates who were the primary sales contacts for existing customers; (iii) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019;” (iv) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period, had “not kept pace with [its] bullish sales hiring goals;” (v) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and thus had not been providing the Company with any new sales leads; (vi) according to CW1, in 2018, Dell changed its compensation structure for its salesforce to pay higher commissions for the sale of VMware products; and (vii) as a result of the above, according to CW1 and CW3, by April or May 2018, Nutanix’s sales leads had materially declined and were “pretty dry,” which would have been reflected in the Salesforce.com pipeline reports.

230. Moreover, unbeknownst to investors, according to CW1 and CW2, Nutanix was engaging in the misleading practice of “pulling in” future sales to the current quarter in order to give investors the false impression that Nutanix was keeping pace with prior growth and increasing its pipeline with new customers when it was not.

231. The above statements in the May 24 Press Release and the May 2018 Call confirmed prior misstatements concerning, among others, Nutanix’s purported strong hiring and customer growth and served to maintain the artificial inflation in the Nutanix’s stock price.

I. Materially False and Misleading Statements in the June 12, 2018 Form 10-Q

232. On June 12, 2018, Nutanix filed its quarterly report on Form 10-Q for the period ended April 30, 2018 (the “June 2018 10-Q”) with the SEC, which was signed by Defendants Pandey and Williams.

233. According to the June 2018 10-Q Nutanix was “invest[ing] heavily” in its global sales force and was going to continue these investments:

We continue to invest heavily in the growth of our business, including the development of our solutions and build-out of our global sales force . . . We have also expanded our international sales and marketing presence by continuing to build out our global teams. We intend to continue to invest in our global engineering team to enhance the functionality of our operating system, introduce new products and features and build upon our technology leadership, as well as **continue to expand our global sales and marketing teams.**

234. These investments were purportedly “aggressive[]” in order to reach Nutanix’s end customers:

We plan to continue to strengthen and expand our network of channel and OEM partners to increase sales to both new and existing end-customers. **We believe that increasing channel leverage by investing aggressively in sales enablement and co-marketing with our partners will extend and improve our engagement with a broad set of end-customers.**

235. Reiterating the Company’s focus on increasing its investment in sales and marketing, Nutanix further represented that these investments were intended to grow its new customer base:

Investment in Growth

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity, and as part of this, we intend to specifically expand our focus on opportunities with major accounts and large deals, which we define as transactions over \$500,000 in committed value. We have significantly increased our sales and marketing personnel, which grew by 40% from April 30, 2017 to April 30, 2018 . . . We intend to continue to grow our global sales and marketing team to acquire new end customers and to increase sales to existing end customers.

236. Nutanix represented that, as part of these efforts to “continu[ally] increase[] [its] marketing activities,” the Company was increasing its sales and marketing headcount:

Sales and marketing expense increased in the three and nine months ended April 30, 2018 as compared to the same prior year periods, due primarily to higher personnel costs and sales commissions, as our sales and marketing headcount increased by 40% from April 30, 2017 to April 30, 2018. Additionally, as part of our efforts to penetrate and expand in global markets, **we continue to increase our marketing activities related to brand awareness, promotions, trade shows, and partner programs.**

237. The June 2018 10-Q reiterated that:

We have expanded our overall business and operations significantly in recent periods. Our employee headcount increased significantly since our inception, and **we may have**

significant headcount increases in the future. We anticipate that our operating expenses will increase in the foreseeable future as we scale our business, including in developing and improving our solutions, expanding our sales and marketing capabilities and global coverage, and in providing general and administrative resources to support our growth.

238. The June 2018 10-Q further represented that, as a result of Nutanix's increased focus on sales and marketing, these efforts were being reflected in the Company's increased product revenue.

The increase in product revenue for the three and nine months ended April 30, 2018 reflects increased domestic and international demand for our solutions as we continued to penetrate and expand in global markets through increased sales and marketing activities.

239. The statements above in ¶¶233-38 were materially false and misleading when made because: (i) since fiscal Q4 2017, Nutanix decided during the "planning process" to keep lead generation spending "flat" and thus Nutanix had an "inadequate marketing spend for pipeline generation" – facts Defendants later admitted on February 28, 2019;" (ii) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (iii) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period and, as later admitted on February 28, 2019, had "not kept pace with [its] bullish sales hiring goals;" (iv) according to CW5, Nutanix had not allocated sufficient sales resources to adequately allow CW5 to land large accounts; (v) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and since the beginning of calendar 2018, Dell had changed the compensation structure for its salesforce to pay higher commissions for sales of VMware: thus Dell was not "comarketing" with Nutanix to sell Nutanix products; and (vi) Nutanix admittedly was not investing in its sales and marketing, let alone "aggressively" or "heavily."

240. Additionally, Nutanix issued false, misleading, and woefully incomplete risk factors of investing in Nutanix which stated, in pertinent part:

A shift in our relationships with our OEM partners could adversely affect our results of operations.

Our relationships with our original equipment manufacturer ("OEM") partners continue to shift as industry dynamics change, and **our OEM partners may be less willing to partner with us as an OEM or otherwise as such shifts occur.** For example, Dell Technologies ("Dell") is not just an OEM partner, but also a competitor of ours, and accounted for 13% and 11% of our total billings in fiscal 2016 and fiscal 2017,

respectively. In September 2016, EMC Corporation (“EMC”), was acquired by Dell. As a result of the acquisition, **Dell may be more likely to promote and sell its own solutions, including those from EMC’s complementary product portfolio, over our products, or cease selling or promoting our products entirely.** Also, **Dell** holds a majority of outstanding voting power in VMware Inc. (“VMware”) and **could combine the Dell, EMC and VMware product portfolios into unified offerings optimized for their platforms. If Dell decides to sell its own solutions over our products, that could adversely impact our OEM sales and harm our business, operating results and prospects, and our stock price could decline.**

241. The above statements in ¶240 were materially false and misleading when made because according to CW1, beginning in the summer of 2017, Dell was promoting VMware instead of Nutanix products and stopped providing Nutanix with any new sales leads, causing Nutanix’s sales and pipeline to significantly decline, which CW1, CW3, CW5 and CW6 stated would have been reflected in Nutanix’s Salesforce.com pipeline reports. Thus, Defendants’ purported risk disclosure had already materialized.

242. Upon the news, Nutanix stock increased from a closing price of \$60.65 per share on June 12, 2018 to a close of \$63.50 per share on June 13, 2018. Many of the above misstatements in the June 2018 10-Q also confirmed nearly identical misstatements made in the December 2017 10-Q and March 2018 10-Q and served to maintain the artificial inflation in Nutanix’s stock price.

J. Materially False and Misleading Statements Concerning the August 30, 2018 Press Release

243. On August 30, 2018, after market close, Nutanix issued a press release, also attached to a Form 8-K filed with the SEC on August 30, 2018, announcing the Company’s financial results for its fourth fiscal quarter and fiscal year ended July 31, 2018 (“August 2018 Press Release”). In the August 2018 Press Release, Defendant Williams touted the Company’s purported “strong achievement” relating to its gross margin:

The company’s strong achievement of 78 percent non-GAAP gross margin, the best in our history, is the direct result of our successful execution toward a software-defined business model.

244. The above statements in ¶243 were materially false and misleading when made because: (i) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period, had “not kept pace with [its] bullish sales hiring goals;” (ii) Nutanix’s headcount for

1 sales personnel was actually *decreasing* because Nutanix was experiencing significant turnover of its
 2 sales personnel; (iii) according to CW1, Nutanix was not “focus[ing] on [its] customers,” but in fact had
 3 decreased spending on Outside Sales associates who were the primary sales contacts for existing
 4 customers; and (iv) as a result of (i) and (iii), Nutanix was only able to boost gross margins by
 5 implementing a hiring freeze on sales personnel, which lowered overall expenses, and by not replacing
 6 personnel lost through the significant turnover Nutanix was experiencing.

7 **K. Materially False and Misleading Statements in the August 30, 2018 Conference**
 8 **Call**

9 245. On August 30, 2018, after market close, the Individual Defendants held an investor
 10 conference call with analysts to discuss the Company’s fourth quarter 2018 financial results (“August
 11 2018 Call”). During the August 2018 Call, Defendant Williams claimed that after analyzing Nutanix’s
 12 spending, the Company purportedly had “strong growth in spending” and “ramped rep sales
 13 productivity:”

14 When we sit back and analyze our spending plans, we take note of the following: our
 15 strong growth in spending will be completely self-funded by our free cash flow; our
 16 ramped rep sales productivity has increased sequentially for the last three six-month
periods ending Q4 2017, Q2 2018, and Q4 2018 and our customer repeat purchase
 multiples continue to increase.

17 246. The statement above in ¶245 was materially false and misleading when made because:
 18 (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending
 19 “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants
 20 later admitted on February 28, 2019; (ii) according to CW1 and CW7, Nutanix had implemented hiring
 21 freezes for its sales personnel during the Class Period, had “not kept pace with [its] bullish sales hiring
 22 goals;” (iii) according to CW1, CW2, CW6 and CW7, Nutanix’s headcount for sales personnel was
 23 actually *decreasing* because Nutanix was experiencing significant turnover of its sales personnel in
 24 2018; (iv) according to CW1, Nutanix had decreased spending on Outside Sales associates who were
 25 the primary sales contacts for existing customers; (v) as a result of (i) and (iv) above, according to CW1
 26 and CW3, by April or May 2018, Nutanix’s sales leads had materially declined and were “pretty dry,”
 27 which would have been reflected in the Salesforce.com pipeline reports; and thus (vii) Nutanix’s
 28 spending on sales and marketing was not “strong” and productivity was not increasing as Defendants

represented. In fact, according to CW1 and CW2, Defendants were only able to portray sales growth and that Nutanix was meeting its sales targets by engaging in the misleading practice of “pulling in” future sales to the current quarter.

247. Defendants Pandey and Williams also touted the Company’s gross margin performance and growth:

Dheeraj Pandey

. . . We delivered record performance in several areas, including delivering non-GAAP gross margins of nearly 78% and growing our deferred revenue balance by 71% for the -- from the prior year.

[Williams:] . . . Gross margins improved to 68% in fiscal 2018 versus 63% in fiscal 2017. And we were also pleased that we self-funded our rapid, at-scale growth this year while generating \$30 million in free cash flow. And our Rule of 50 score in fiscal 2018 was 51, a level very few companies achieve.

248. Defendant Pandey continued to misrepresent the Company’s gross profits as compared to VMware, its largest competitor, as follows:

Matt Hedberg

. . . I guess, Dheeraj, from a competitive perspective, fundamentally, how do you differentiate yourself from VMware, which I think is the -- your biggest competitor there? And just how is your fundamental approach different?

Dheeraj Pandey

. . . They have a lot of perpetual licenses. We are progressively going to move toward subscription in the immediate future. And they're very -- they are very competitor obsessed, we are very customer-obsessed. And I think, for us, the focus has always been about the customer. We had to focus so much on design. We didn't get it easy. They sold themselves to EMC to build an operating systems company. We had to do it one customer at a time, inching our gross margins from low 40s to high 70s, one NPS point at a time. And it's been hard and it's been worth every penny.

249. The statement above in ¶¶247-48 was materially false and misleading when made because: (i) according to CW6, Nutanix’s Net Promotor Score in fiscal Q3 or Q4 2018 was decreasing; (ii) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period, had “not kept pace with [its] bullish sales hiring goals;” (iii) according to CW1, CW2, CW6 and CW7, Nutanix’s headcount for sales personnel was actually *decreasing* because Nutanix was

1 experiencing significant turnover of its sales personnel in 2018; (iv) according to CW1, Nutanix had
 2 decreased spending on Outside Sales associates who were the primary sales contacts for existing
 3 customers; and (v) as a result of (i) through (iv), Nutanix was only able to boost gross margins by
 4 implementing a hiring freeze on sales personnel, which lowered overall expenses, and by not replacing
 5 personnel lost through the significant turnover Nutanix was experiencing.

6 250. The above statements in the August 2018 Press Release and the August 2018 Call
 7 confirmed prior misstatements concerning, among others, Nutanix's purported improving gross margins
 8 and sales productivity and served to maintain the artificial inflation in Nutanix's stock price.

9 **L. Materially False and Misleading Statements in the September 24, 2018 Form 10-K**

10 251. On September 24, 2018, Nutanix filed its Annual Report on Form 10-K for the year-
 11 ended July 31, 2018 ("2018 10-K"), which was signed by Defendants Pandey and Williams. The 2019
 12 10-K contained the same materially false and misleading statements as the August 30, 2018 Press
 13 Release.

14 252. In addition, the 2018 10-K falsely claimed that "sales and marketing efforts [were]
 15 expand[ing]" when they were not, and that such efforts were used to grow Nutanix's customer base,
 16 the growth of which was actually declining year-over-year. "Key elements of [Nutanix's] growth
 17 strategy" were reportedly to:

- 18 • **Invest to acquire new end customers.** We completed our first end
 19 customer sale in October 2011 and have since grown to over 10,600 end
 20 customers. **We intend to grow our base of end customers by increasing**
 21 **our investment in sales and marketing, leveraging our network of**
 22 **channel partners and OEMs,** furthering our international expansion and
 extending our enterprise cloud platform to address new customer segments.
 One area of continued focus is expanding our position within the Global
 2000...

23 253. The 2018 10-K also falsely claimed that Nutanix was actively engaging in lead
 24 generation activities through its marketing efforts when, in fact, Nutanix had admittedly kept its lead
 25 generation spend flat starting in fiscal Q4 2017:

26 In addition, **we work closely with our technology partners through co-**
 27 **marketing and lead-generation activities in an effort to broaden our marketing**
 28 **reach and help us win new customers and retain existing ones.**

254. In addition, the 2018 10-K also claimed that Nutanix was purportedly expanding its sales and marketing capabilities, including by significantly increasing its employee headcount:

We have expanded our overall business and operations significantly in recent periods. Our employee headcount increased significantly since our inception, and **we may have significant headcount increases in the future. We anticipate that our operating expenses will increase in the foreseeable future as we scale our business, including in** developing and improving our solutions, **expanding our sales and marketing capabilities and global coverage**, and in providing general and administrative resources to support our growth. . . .

255. According to the 2018 10-K, Nutanix was purportedly increasing its marketing activities when, in fact, the opposite was true and the Company kept those activities flat:

Sales and marketing expense increased year-over-year both for fiscal 2017 and fiscal 2018 **due primarily to higher personnel-related costs and sales commissions, as our sales and marketing headcount increased by 42% year-over-year in both fiscal 2017 and 2018.** . . . Additionally, as part of our efforts to penetrate and expand in global markets, **we continue to increase our marketing activities related to brand awareness, promotions, trade shows, and partner programs.**

256. Defendants also claimed that Nutanix was investing in its sales force when, in reality, the Company had implemented a hiring freeze in fiscal 2018 and was losing up to 30% of its salesforce due to high turnover from the incompetent management of its sales executives:

We continue to invest heavily in the growth of our business, including the development of our solutions and build-out of our global sales force. . . . **We have also expanded our international sales and marketing presence by continuing to build out our global teams.** We intend to continue to invest in our global engineering team to enhance the functionality of our platform, introduce new products and features and build upon our technology leadership, **as well as continue to expand our global sales and marketing teams.**

257. Reaffirming the continuing investment in sales and headcount, the 2018 10-K further noted that such efforts were supposedly intended to increase sales to new customers:

We plan to continue to invest in sales and marketing so that we can capitalize on our market opportunity and as part of this, we intend to specifically expand our focus on opportunities with major accounts and large deals, which we define as transactions over \$500,000. We have significantly increased our sales and marketing personnel, which grew by approximately 42% from July 31, 2017 to July 31, 2018. . . . We intend to continue to grow our global sales and marketing team to acquire new end customers and to increase sales to existing end customers.

258. With respect to customers, the 2018 10-K falsely represented that Nutanix was increasing sales to both new and existing customers by “aggressively” investing in sales and marketing activities:

We plan to continue to strengthen and expand our network of channel and OEM partners to increase sales to both new and existing end customers. We believe that increasing channel leverage by investing aggressively in sales enablement and co-marketing with our partners will extend and improve our engagement with a broad set of end customers. Our business and results of operations will be significantly affected by our success in leveraging and expanding our network of channel and OEM partners.

259. The 2018 Form 10-K also represented that the Company’s investment in sales and marketing was going to “**continue to increase**”:

Product revenue increased year-over-year for both fiscal 2017 and fiscal 2018. The increase in product revenue reflects increased domestic and international demand for our solutions as we continue to penetrate and expand in global markets through increased sales and marketing activities. Our total end customer count increased from over 3,700 as of July 31, 2016 to over 7,000 as of July 31, 2017 and to over 10,600 as of July 31, 2018.

260. The statements above in ¶¶251-59 were materially false and misleading when made because: (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019;” (ii) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (iii) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period and, as later admitted on February 28, 2019, had “not kept pace with [its] bullish sales hiring goals;” (iv) according to CW5, Nutanix had not allocated sufficient sales resources to adequately allow CW5 to land large accounts; and, thus (v) Nutanix admittedly was not investing in its sales and marketing, let alone “aggressively” or “heavily.”

261. The above statements in ¶¶251-59 were additionally false and misleading when made because they gave the misleading impression that Defendants’ purported focus on selling software was resulting in increasing customer growth and a growing pipeline of projects when, in reality, Nutanix admittedly “underspent . . . on new customers” and according to CW1 and CW3, by April or May 2018, Nutanix’s sales leads had materially declined and were “pretty dry,” which would have been reflected in the Salesforce.com pipeline reports.

262. Additionally, Nutanix issued false, misleading, and woefully incomplete risk factors of investing in Nutanix which stated, in pertinent part:

A shift in our relationships with our OEM partners could adversely affect our results of operations.

Our relationships with our original equipment manufacturer (“OEM”) partners continue to shift as industry dynamics change, and **our OEM partners may be less willing to partner with us as an OEM or otherwise as such shifts occur.** For example, Dell Technologies (“Dell”) is not just an OEM partner, but also a competitor of ours, and accounted for 13%, 11% and 8% of our total billings in fiscal 2016, fiscal 2017 and fiscal 2018. In September 2016, EMC Corporation (“EMC”) was acquired by Dell. As a result of the acquisition, **Dell may be more likely to promote and sell its own solutions,** including those from EMC’s complementary product portfolio, over our products, **or cease selling or promoting our products entirely.** Also, **Dell** holds a majority of outstanding voting power in VMware Inc. (“VMware”) and **could combine the Dell, EMC and VMware product portfolios into unified offerings optimized for their platforms. If Dell decides to sell its own solutions over our products, that could adversely impact our OEM sales and harm our business, operating results and prospects, and our stock price could decline.**

263. The above in ¶262 statements were materially false and misleading when made because according to CW1, beginning in the summer of 2017, Dell was promoting VMware instead of Nutanix products and stopped providing Nutanix with any new sales leads, causing Nutanix’s sales and pipeline to significantly decline, which CW1, CW3, CW5 and CW6 stated would have been reflected in Nutanix’s Salesforce.com pipeline reports. Thus, Defendants’ purported risk disclosure had already materialized.

264. On this news, Nutanix’s stock price increased from a close of \$42.40 per share on September 24, 2018 to a close of \$43.12 per share on September 25, 2018. Many of the above misstatements in the 2018 10-K also confirmed nearly identical misstatements made in the December 2017 10-Q, March 2018 10-Q and the June 2018 10-Q and served to maintain the artificial inflation in Nutanix’s stock price.

M. Materially False and Misleading Statements in the November 27, 2018 Press Release

265. On November 27, 2018, after market close, Nutanix issued a press release, also attached to a Form 8-K filed with the SEC on November 27, 2018, announcing the Company’s financial results for its first fiscal quarter of 2019 ended October 31, 2018 (the “November 27 Press Release”). In the

1 November 27 Press Release, Defendant Pandey was quoted as stating:

2 **Our results this quarter prove that our core business continues to grow**
 3 **strongly and put us on a solid path to meet our goal of at least \$3 billion in**
 4 **software and support billings by 2021.**

5 266. The statement above in ¶265 was materially false and misleading when made because:
 6 (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending
 7 “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants
 8 later admitted on February 28, 2019; (ii) Nutanix (as later admitted on February 28, 2019) reallocated
 9 the lead generation spend to engineering and new product development/acquisitions; (iii) according to
 10 CW6, management’s focus on engineering and new products caused the quality of its “core” HCI
 11 technology to suffer during the second half of 2017 and throughout 2018, including its functionality
 12 where one-click updates were no longer available, resulting in decreasing sales and sales pipeline; (iv)
 13 according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the
 14 Class Period, had “not kept pace with [its] bullish sales hiring goals”; (v) according to CW1, since the
 15 summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and
 16 thus had not been providing the Company with any new sales leads; (vi) according to CW1, since the
 17 beginning of calendar 2018, Dell had changed the compensation structure for its salesforce to pay higher
 18 commissions for sales of VMware; (vii) as a result of (i) and (vi) above, according to CW1 and CW3,
 19 by April or May 2018, Nutanix’s sales leads had materially declined and were “pretty dry,” which would
 20 have been reflected in the Salesforce.com pipeline reports; and, thus (viii) Nutanix was never going to
 21 meet the target of \$3 billion in billings by 2021. Moreover, the only reason Defendants were able to
 22 portray sales growth and that Nutanix was meeting its sales targets was, according to CW1 and CW2,
 23 by engaging in the misleading practice of “pulling in” future sales to the current quarter.

24 **N. Materially False and Misleading Statements in the November 27, 2018 Conference Call**

25 267. On November 27, 2018, after market close, the Individual Defendants held an investor
 26 conference call with analysts to discuss the Company’s first quarter 2019 financial results (“November
 27 2018 Call”). During the November 2018 Call, when one analyst asked why the software and support
 28 billings had come down in the first quarter, Defendant Williams falsely assured investors that this was

1 expected and would increase in coming quarters:

2 **Katy Huberty**

3 Understood. And Duston software and support billings came down a bit this
4 quarter. Is that just new seasonality as the business scales or was there some impact
5 of the subscription transition in the quarter, if so, how much?

5 **Duston Williams**

6 Yes, no, there really wasn't any impact to say on the subscription piece. Actually,
7 when you look at the length of these new licenses, the \$20 million, it's slightly
8 higher than the 3.6 average. So, there really wasn't any tilt to one year or anything
9 like that in that. But we had – just looking and addressing billings in total, **we had**
10 **guided billings down actually in Q1, we came off a really strong Q3, a really**
11 **strong Q4 into a seasonally soft Q1 so that we had guided \$370 million to \$390**
million of total billings and obviously we came in at roughly \$384 million, so
close to the top end of that range. So, it was kind of as expected there and the
pieces kind of fell off as they did.

12 268. The statement above in ¶267 was materially false and misleading when made because:
13 (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending
14 “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants
15 later admitted on February 28, 2019; (ii) according to CW6, management’s focus on engineering and
16 new products caused the quality of its “core” HCI technology to suffer during the second half of 2017
17 and throughout 2018, including its functionality where one-click updates were no longer available,
18 resulting in decreasing sales and sales pipeline; (iii) according to CW1 and CW7, Nutanix had
19 implemented hiring freezes for its sales personnel during the Class Period, had “not kept pace with [its]
20 bullish sales hiring goals”; (iv) according to CW1, since the summer of 2017, Dell had been promoting
21 its own VMware products instead of Nutanix products and thus had not been providing the Company
22 with any new sales leads; (v) according to CW1, since the beginning of calendar 2018, Dell had changed
23 the compensation structure for its salesforce to pay higher commissions for sales of VMware; and thus
24 (vi) billings were down as a result of (i) through (v) above, not just because the prior quarter was
25 particularly strong, as Defendants claimed.

26 269. Defendants also misrepresented the Company’s competitive landscape. When probed by
27 an analyst, Pandey stated:

28 **Aaron Rakers**

1 Okay. And then as a real quick follow-up, I'm just curious as you guys make this kind of
 2 pivot in the strategy, how do you think about the competitive landscape? And I think
 3 importantly, the competitive landscape evolving, you know looking out over the next 12 to
 4 24 months, has there been any change currently and who do you view as actually your most
 5 formidable competitors going forward?

6 **Dheeraj Pandey**

7 Yes. So, in terms of the competitive landscape, nothing has changed in the last
 8 quarter or so . . . Now, Dell EMC definitely is closer to VMware than it was, let's say,
 9 a year or two ago. But even there we have navigated competition waters really well.

10 270. The above statement was materially false and misleading because when made because:
 11 (i) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products
 12 instead of Nutanix products and thus had not been providing the Company with any new sales leads; (ii)
 13 starting in 2018, Dell had changed its compensation structure to pay higher compensation to its
 14 salesforce who sold VMware products; (iii) as a result of (i) and (ii) above and, according to CW1 and
 15 CW3, by April or May 2018, Nutanix's sales leads had materially declined and were "pretty dry," which
 16 would have been reflected in the Salesforce.com pipeline reports; and thus (iv) Nutanix had not
 17 navigated the competitive waters "really well" but, instead, rather poorly and there had been substantial
 18 changes in the competitive landscape during prior to and throughout the Class Period.

19 **O. Materially False and Misleading Statements in the November 28, 2018 Blog Post**

20 271. On November 28, 2018, Defendant Pandey published a self-written blog post on the
 21 Company's website titled *The Nutanix Customer Journey: A Perspective from .NEXT, EMEA*. In that
 22 post, Pandey criticized VMware as merely offering customers "good enough" solutions. Pandey stated:

23 "Good enough" infrastructure is an oxymoron, period. This is why we have been so
 24 successful at adding Nutanix Core customers. These customers deploy AOS and
 25 Prism platform and AHV virtualization to modernize and deliver a cloud-like experience
 26 within the walls of their own datacenter. Nutanix Core customers represent the
 27 foundation of our business in the near-term and are what will enable us to deliver on our
 28 goal of at least \$3b in software and support billings by 2021.

29 272. The statement above in ¶271 was materially false and misleading when made because
 30 according to CW6, management's focus on engineering and new products caused the quality of its
 31 "core" HCI technology to suffer during the second half of 2017 and throughout 2018, including its
 32 functionality where one-click updates were no longer available, resulting in decreasing sales and sales

1 pipeline.

2 273. On this news in the November 27 Press Release, November 2018 Call and the November
3 28, 2018 Blog Post, Nutanix's stock increased from a closing price of \$40.97 per share on November
4 27, 2018, to \$43.10 per share on November 28, 2018.

5 **P. Materially False and Misleading Statements in the December 10, 2018 Form 10-Q**

6 274. On December 10, 2018, Nutanix filed its quarterly report on Form 10-Q for the period
7 ended October 31, 2018 (the "December 2018 10-Q") with the SEC, which was signed by Defendants
8 Pandey and Williams. According to the December 2018 10-Q, Nutanix was "invest[ing] heavily" in its
9 global sales force and was going to continue these investments:

10 **We continue to invest heavily in the growth of our business, including the development**
11 **of our solutions and build-out of our global sales force . . . We have also expanded our**
12 **international sales and marketing presence by continuing to build out our global**
13 **teams.** We intend to continue to invest in our global engineering team to enhance the
14 functionality of our platform, introduce new products and features and build upon our
15 technology leadership, **as well as continue to expand our global sales and marketing**
16 **teams.**

17 275. These investments were purportedly "**aggressive[]**" in order to reach Nutanix's end
18 customers:

19 We plan to continue to strengthen and expand our network of channel and OEM partners
20 to increase sales to both new and existing end-customers. **We believe that increasing**
21 **channel leverage by investing aggressively in sales enablement and co-marketing with**
22 **our partners will extend and improve our engagement with a broad set of end-**
23 **customers.**

24 276. Reiterating the Company's focus on increasing its investment in sales and marketing,
25 Nutanix further represented that these investments were intended to grow its new customer base:

26 **Investment in Growth**

27 **We plan to continue to invest in sales and marketing so that we can capitalize on our**
28 **market opportunity,** and as part of this, we intend to specifically expand our focus on
opportunities with major accounts and large deals, which we define as transactions over
\$500,000 in committed value. **We have significantly increased our sales and marketing**
personnel, which grew by 40% from October 31, 2017 to October 31, 2018 . . . We
intend to continue to grow our global sales and marketing team to acquire new end
customers and to increase sales to existing end customers.

277. Nutanix represented that, as part of these efforts to "continually increase[] [its] marketing

activities,” the Company was increasing its sales and marketing headcount:

Sales and marketing expense increased in the three months ended October 31, 2018 compared to the same prior year period, due primarily to higher personnel-related costs, including stock-based compensation expense, **as our sales and marketing headcount increased by 40%** from October 31, 2017 to October 31, 2018. **Additionally, as part of our efforts to penetrate and expand in global markets, we continue to increase our marketing activities related to brand awareness, promotions, trade shows and partner programs.**

278. The December 2018 10-Q reiterated that:

We have expanded our overall business and operations significantly in recent periods. **Our employee headcount increased significantly since our inception, and we may have significant headcount increases in the future. We anticipate that our operating expenses will increase in the foreseeable future as we scale our business, including** in developing and improving our solutions, **expanding our sales and marketing capabilities and global coverage**, and in providing general and administrative resources to support our growth.

279. The December 2018 10-Q further represented that, as a result of Nutanix’s increased focus on sales and marketing, these efforts were being reflected in the Company’s increased product revenue.

The increase in product revenue for the three ended October 31, 2018 reflects increased demand for our solutions as we continue to penetrate and expand in global markets through increased sales and marketing activities.

280. The statements above in ¶¶274-79 were materially false and misleading when made because: (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts Defendants later admitted on February 28, 2019;” (ii) Nutanix (as later admitted on February 28, 2019) reallocated the lead generation spend to engineering and new product development/acquisitions; (iii) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales personnel during the Class Period and, as later admitted on February 28, 2019, had “not kept pace with [its] bullish sales hiring goals;” (iv) according to CW5, Nutanix had not allocated sufficient sales resources to adequately allow CW5 to land large accounts; and (v) Nutanix admittedly was not investing in its sales and marketing, let alone “aggressively” or “heavily.”.

281. Additionally, Nutanix issued false, misleading, and woefully incomplete risk factors of

investing in Nutanix which stated, in pertinent part:

A shift in our relationships with our OEM partners could adversely affect our results of operations.

Our relationships with our original equipment manufacturer (“OEM”) partners continue to shift as industry dynamics change, and **our OEM partners may be less willing to partner with us as an OEM or otherwise as such shifts occur.** For example, Dell Technologies (“Dell”) is not just an OEM partner, but also a competitor of ours, and accounted for 11% and 8% of our total billings in fiscal 2017 and fiscal 2018, respectively. **Dell** own EMC Corporation (“EMC”), as well as a majority of outstanding voting power in VMware Inc. (“VMware”) and **could combine the Dell, EMC and VMware product portfolios into unified offerings optimized for their platforms,** which would compete directly with our core solutions. Also, Dell may be more likely to promote and sell its own solutions, including those from EMC’s complementary product portfolio, over our products, or cease selling or promoting our products entirely. **If Dell decides to sell its own solutions over our products, that could adversely impact our OEM sales and harm our business, operating results and prospects, and our stock price could decline.**

282. The above statements in ¶281 were materially false and misleading when made because according to CW1, beginning in the summer of 2017, Dell was promoting VMware instead of Nutanix products and stopped providing Nutanix with any new sales leads, causing Nutanix’s sales and pipeline to significantly decline, which CW1, CW3, CW5 and CW6 stated would have been reflected in Nutanix’s Salesforce.com pipeline reports. Thus, Defendants’ purported risk disclosure had already materialized.

283. The above misstatements in the December 2018 10-Q confirmed nearly identical misstatements made in the December 2017 10-Q, March 2018 10-Q, June 2018 10-Q and 2018 10-K and served to maintain the artificial inflation in Nutanix’s stock price.

Q. The Materially False and Misleading February 28, 2019 J.P. Morgan Report

284. On February 27, 2019, the day before Nutanix revealed the truth, J.P. Morgan released a report, “Partner Feedback Underscores Consistent Year-End Demand Environment; FQ2(Jan) Setup Not Ideal Due To Tough Comp.”

285. After speaking with “a few key partners in Nutanix’s ecosystem,” J.P. Morgan “highlight[ed]” key quotes from these sources, representing that: (i) **“We are seeing a ton of demand for [Nutanix platform] and in almost all of our districts”**; and (ii) **“[Pipeline is] definitely fairly**

1 **strong to where we were last year.”**

2 286. The statement above in ¶¶284-85 was materially false and misleading when made
 3 because: (i) since fiscal Q4 2017, Nutanix decided during the “planning process” to keep lead generation
 4 spending “flat” and thus Nutanix had an “inadequate marketing spend for pipeline generation” – facts
 5 Defendants later admitted on February 28, 2019; (ii) Nutanix (as later admitted on February 28, 2019)
 6 reallocated the lead generation spend to engineering and new product development/acquisitions; (iii)
 7 according to CW6, management’s focus on engineering and new products caused the quality of its
 8 “core” HCI technology to suffer during the second half of 2017 and throughout 2018, including its
 9 functionality where one-click updates were no longer available, resulting in decreasing sales and sales
 10 pipeline; (iv) according to CW1 and CW7, Nutanix had implemented hiring freezes for its sales
 11 personnel during the Class Period, had “not kept pace with [its] bullish sales hiring goals”; (v) according
 12 to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of
 13 Nutanix products and thus had not been providing the Company with any new sales leads; (vi) according
 14 to CW1, since the beginning of calendar 2018, Dell had changed the compensation structure for its
 15 salesforce to pay higher commissions for sales of VMware; (vii) as a result of (i) and (vi) above,
 16 according to CW1 and CW3, by April or May 2018, Nutanix’s sales leads had materially declined and
 17 were “pretty dry,” which would have been reflected in the Salesforce.com pipeline reports; and (viii) as
 18 a result of the foregoing, demand for Nutanix’s products was weakening, not “strong,” as Defendants
 19 claimed.

20 287. Moreover, according to CW1 and CW2, Defendants were only able to portray sales
 21 growth and that Nutanix was meeting its sales targets by engaging in the misleading practice of “pulling
 22 in” future sales to the current quarter.

23 **VII. THE TRUTH IS REVEALED OVER THREE PARTIAL DISCLOSURES**

24 **A. The February 28, 2019 Press Release Partially Disclosing the Truth**

25 288. On February 28, 2019, after the market closed, Nutanix shocked the market when it
 26 issued a press release, entitled “Nutanix Reports Second Quarter Fiscal 2019 Financial Results,”
 27 announcing the Company’s second quarter fiscal 2019 financial results (the “February 2019 Press
 28 Release”). In direct contradiction of Defendants’ Class Period statements that Nutanix was increasing

its investment in sales and marketing and sales hiring, Defendants announced that Nutanix had actually been *underspending* on lead generation and *under hiring* sales personnel:

“We were pleased with our large deal activity and our progress in moving toward a subscription model,” said Duston Williams, CFO of Nutanix. “*Looking ahead, our third quarter guidance reflects the impact of inadequate marketing spending for pipeline generation and slower than expected sales hiring. We took a critical look at these areas and have taken actions to address them.*”

289. Defendants also disclosed that Nutanix missed its revenue guidance by 15% and provided weak third quarter guidance as a result of underspending on sales and marketing, stating in pertinent part: “[l]ooking ahead, our third quarter guidance reflects the impact of *inadequate marketing spending for pipeline generation and slower than expected sales hiring*. We took a critical look at these areas and have taken actions to address them.”

290. Specifically, Nutanix reported the following Q3 fiscal 2019 guidance:

Q3 Fiscal 2019 Financial Outlook

For the third quarter of fiscal 2019, Nutanix expects:

- Revenue between \$290 million and \$300 million;
- Billings between \$360 million and \$370 million;
- Non-GAAP gross margin between 75% and 76%;
- Non-GAAP operating expenses between \$330 million and \$340 million; and
- Non-GAAP net loss per share of approximately \$0.60, using approximately 183 million weighted shares outstanding

291. On February 28, 2019, also after market close, the Individual Defendants held an investor conference call with analysts to discuss the Company’s second fiscal quarter 2019 results (“February 2019 Call”). During the February 2019 Call, Defendant Pandey revealed that in addition to underspending on sales and marketing, the Company also had not been hiring sales personnel as previously represented during the Class Period and was experiencing difficulties with “sales execution,” stating, in relevant part:

... I would like to take you through three key areas of our business where we are making adjustments to maximize our strong market opportunity. First, *we recently identified some imbalances in our lead generation spending that were beginning to impact our sales pipeline. We recognized these imbalances in Q2* and have adjusted our lead generation spend accordingly. Despite these, these actions will take some time to take effect and therefore our Q3 guidance reflects the short-term

1 impact of these imbalances. The changes we implemented are already showing
 2 early positive signs at the top of the funnel and we expect to see increasing traction
 3 in our sales pipeline over the coming quarters. Duston will provide more details on
 these imbalances and our actions taken later in the call.

4 **Second, over the past few quarters, we have not kept pace with our bullish sales**
 5 **hiring goals. This plays a role in our sales pipeline development.** Hiring at this
 6 scale is a norm and there is an ebb and flow to the process. We have been putting
 7 more focus on this aspect of our execution as we don't foresee any macro weakness
 8 in the horizon. **Finally, we are in the process of addressing a few opportunities to**
improve our sales execution in the Americas region. To address this, we have
promoted Chris Kaddaras, our current Head of EMEA sales to lead both the
Americas and EMEA sales organizations. . . .

9 292. Defendant Williams confirmed that the imbalances in Nutanix's lead generation spend
 10 was the cause for the Company missing its pipeline targets, stating:

11 . . . **In Q2**, while we were pleased with our progress with moving toward recurring
 12 subscription business as well as with our large deals in EMEA performance, **we**
 13 **were disappointed to miss our pipeline targets. Generally speaking, our Q2 was a**
quarter that should afford us to build backlog and that did not happen this year.

14 **As Dheeraj discussed at the beginning of the call, we recently identified some**
 15 **imbalances in our lead generation spending that were beginning to impact our**
 16 **sales pipeline. Lead generation spending is a key component to building pipeline,**
 17 **which ultimately significantly impacts bookings, billings and revenue.** In fiscal
 18 2018 I'm sorry, in fiscal 2017 we had increased lead generation spend by 75% over
 19 the prior year. This increase drove strong pipeline generation of fiscal 2017 and
 20 fiscal 2018, as well as improved efficiencies within the lead generation spend
 during fiscal 2018. Encouraged by our overall company performance, **in fiscal**
2018, we reallocated some of our lead generation spending to other priorities. As
a result, there was a fourth quarter period from Q4 2017 to Q3 2018 that we
basically kept lead generation spend flat, all while the company continued to
perform quite well.

21 **Based on the lead generation spend efficiencies we experienced in FY 2018, we**
 22 **assumed further efficiencies would take place in FY 2019 and we again**
 23 **reallocated capital away from lead generation spend during our planning**
 24 **process. In Q2, we noticed a pattern that some of our lead generation efficiencies**
 25 **that we had planned for were not being realized. We began taking actions to**
 26 **reallocate capital back to lead generation spending, while at the same time,**
 27 **dialing back on non-sales hiring. We have continued these actions into Q3. Our**
 28 **quota-carrying sales reps also contributed to pipeline build and our pipeline**
targets were further impacted by a shortage of sales reps in the first half of the
fiscal year, resulting in an under-spend by several million dollars. It's important
to note that all this shifting of spend back to lead generation is not an
insignificant amount. The magnitude of the shift is in a few tens of millions.

Although we started making this adjustment in Q2, we expect it to take a couple of quarters to show meaningful results. In the meantime, we will double down on driving further business from within our large existing enterprise customer base, while the augmented lead generation spending works its way into the pipeline. This brings us to our guidance for Q3, where we expect significant impact from imbalance and lead generation spending earlier in the year, and slower-than-expected sales hiring. Expect the following, billings between \$360 million and \$370 million, revenue between \$290 million and \$300 million, gross margins between 75% and 76%, operating expenses between \$330 million and \$340 million, and a per-share loss of approximately \$0.60, using weighted average shares outstanding of 183 million.

293. These revelations shocked the market and analysts. In response to an analyst question about whether Nutanix introduced too many new products in 2018, Defendant Pandey responded unequivocally “yes” and equated Nutanix’s business operations to a book, “Let Chaos Reign and then Rein in Chaos.”

Jason Ader

Yes, thank you. Guys, I wanted to – I know that lead-gen is going to dominate the conversation here. But, I wanted to understand a little bit more about whether you think number 1, you may have over rotated a little bit much to the – too much to the large enterprise, and also *whether you think it took too much on in terms of new products in 2018*, which may have affected the demand gen just from the standpoint of maybe the sales force in the channel being a little bit confused with all of these new products?

Dheeraj Pandey

. . . On the product portfolio, yes, I mean, obviously, I’m a big fan of Andy Grove and the way he wrote two chapters in the book, Let Chaos Reign and then Rein in Chaos. *So, we let chaos reign in the first half of ‘18 with product portfolio in terms of lack of crisp messaging and then obviously when we realized that we had to do a better job of messaging and classification and things of that nature.* I think the Core, Essentials, Enterprise has been a great sort of storytelling methodology for everybody and people need to realize that they can’t just sell things because Beam is a thing and IoT is a thing and Calm is a thing, but they have to really think about the customer journey. And really empathize on behalf of the customer to say look, start with Core, then Essentials, then Enterprise. So, I think it’s helped a lot in the last 4 months, 5 months. But yes, it comes up. *We are a high velocity company and sometimes we let chaos reign and then we go and rein in the chaos.* But I think the most important sort of – at least in my head is how our sales force has actually gone through two big transformations in the last 18 months, 24 months.

294. In response to an analyst question regarding the cause for the purported lead generation inefficiencies, Defendants admitted that in addition to underspending on lead generation, *Nutanix also*

1 *underspent on obtaining new customers and headcount for sales:*

2 **Rod Hall**

3 Yes, hi guys. Thanks for the question. I guess I wanted to go back to this lead
4 generation issue, as I'm sure you expected to get a few questions on it. I'd just ask,
5 if you could give us a little bit more color on why that efficiency deteriorated so
6 much in this past quarter and maybe a little bit of an example of where these leads
are coming from and have you changed the source of leads, anything like that? Then
I have a follow-up to that.

7 **Duston Williams**

8 Yes, why don't I start, Rod and then I'm sure Dheeraj will want to pitch in here
9 also. Let me just again kind of reiterate a few things that I had said in the script,
10 and maybe a few more things, but if you back up again back to FY 2017, where we
increased spending 75% year-over-year, effectively allowed us to build some pretty
11 good backlog, pretty good pipeline in FY 2017 and into FY 2018. And then in 2018,
we started to see some pretty good efficiencies within that spend. We talked about
12 efficiencies as how much pipeline we build and ultimately how much bookings we
get out of a demand dollar spent. And we saw some pretty good efficiencies there
13 in 2018.

14 *Now, looking back at it, we probably over rotated a bit to the existing customer*
15 *base and large customers there, where those efficiency dollars are easier to get*
16 *and probably underspent a little bit on new customers, which those efficiencies*
are little tougher to get on new customers.

17 **Dheeraj Pandey**

18 I think one other thing I'd also add to this is that, it's like building this business is
19 like building a software. There is who'd would market it like an operating system
and things emerge, *like in the last three months, we saw the aspect of the business*
20 *around how we needed to have actually spent on demand gen in 2018 to have*
made these new customers as existing customers of 2019. And as you know from
the last 2 years of a lot of our go-to-market has been around, making our existing
21 customers even more successful, and *it camouflaged some of the things that we*
needed to do, in terms of adding to the cohort of existing every year, so that next
22 *year you can go, reap that customer base itself.*

23 **Duston Williams**

24 *So, we took some action in December and we reallocated dollars in December.*
25 *We did the same thing in January, and we're doing the same thing now in Q3*
26 *and we'll repeat that in Q4, reallocating more dollars to demand gen and some*
away from non-sales hiring.

27 295. Defendant Pandey also admitted that Defendants had slowed demand spend in the past
28 and knew that it resulted in adverse results from a dry sales pipeline, yet consciously made the decision

1 to do it again:

2 **Rod Hall**

3 Okay, okay. And then, my follow-up to that thanks for that and I wanted to, I guess,
4 follow-up and see NetApp called out this weakness in January. And I'm wondering
5 if you if there is any possibility in your mind that this lead generation deficiency as
6 you perceive it, might be due to external factors like competition or maybe demand
7 disruption as a result of the trading the other issues, the government shutdown
etcetera, do you think that there's any external forces that might be affecting what
you're seeing?

8 **Dheeraj Pandey**

9 Yes, I mean obviously, the things that we don't know that we don't know, but based
10 on everything that we analyze in this business. We first look internally and it's
11 about inputs and outputs, and *we ended up focusing too much on outputs in 2018,*
12 *based on what we are getting from our existing customers.* So, we went back and
13 did some first principles thinking to say, hey, why was 2017 like that, *because in*
14 *2016 we had slowed down quite a bit in demand spending too,* because of those
three quarters of macro issues with China and oil crisis and Brexit and everything.
So, 2016 with a slow year for us *and then we woke up in 2017 and said, we got to*
do this thing around demand as well, and that really helped us in 2017 and 2018.

14 **Duston Williams**

15 *I think* ultimately, *Rod, we squeeze too hard on lead generation spend and we*
16 *shouldn't have done that,* and we've corrected that.

17 296. When asked where the Company reallocated the lead generation spend, Defendants
18 responded that it went to engineering for new products:

19 **Matt Hedberg**

20 Great, thanks. I want to dig in a little bit more on the sort of the questions that were
21 just asked. I'm curious what areas did you reallocate capital to versus lead-gen?
22 And is the plan sort of beyond this Q3 to increase the overall level of spending or
23 is it just reallocating back? And then maybe secondarily, is this primarily a U.S.
issue, given your comments on EMEA, and the sales commentary as well, the sales
head commentary?

24 * * *

25 **Duston Williams**

26 On the expenses, *we reallocate clearly to headcount, a lot went to engineering,*
27 *some new products and things like that. . . .*

28 297. Defendant Pandey explained when questioned about sales representatives' productivity

1 that “one thing I would like also like to add is that, productivity is still a derived variable, Alex. It’s not
 2 the real input. *The inputs are salespeople and pipeline spend, the demand gen spend that we talked*
 3 *about a little while ago.*” Later in the call, Defendant Pandey reiterated this, stating:

4 Yes, I think you know it starts with – as I said, two simple inputs, *it’s time and money and*
 5 *time is what sales force actually puts in, and money is what we give them to go and do*
 6 *all sorts of events and how do you set up meetings.* So, we start looking at these different
 7 tiers of the funnel starting from marketing qualified leads to meeting setup to opportunities
 8 created to things below that in the funnel itself. And in that sense, I don’t think the
 9 methodology has changed. It’s just that the input which is the most basic input is dollars
 10 and that has to be the certain formula to that how those dollars convert to leads and to
 11 meetings and to opportunities and things of that nature. So, I think we are dispersing a lot
 12 of this stuff across the world in like 17 different regions of the world and it’s very similar
 13 to what we did almost 18 months ago.

14 298. As a result of the dissemination of this previously undisclosed information, the price of
 15 Nutanix common stock declined from a closing price of \$50.09 per share on February 28, 2019 to a
 16 close of \$33.70 per share on March 1, 2019.

17 299. Reacting to this news, on February 28, 2019 Wells Fargo downgraded Nutanix,
 18 “following the company’s disappointing outlook reflective of sales under-investment” and noting that
 19 “the productivity ramp of new sales hires take time (4-8+ quarters).”

20 300. One financial analyst noted that “*the magnitude* of the near-term revenue reset and the
 21 associated negative leverage on margins and cash flow is *alarming*” and the “impact of underinvesting
 22 in demand generation activities and under hiring is *severe*.”

23 301. Wells Fargo would later summarize that “Nutanix [] highlighted execution issues related
 24 to (1) lead generation spending, and (2) sales hiring and sales execution issues in Americas as resulting
 25 a forward pipeline decline.”¹⁴ In a March 1, 2019 Company Note, Jefferies stated that while there was
 26 an “imbalanced spending on lead generation earlier in the year as well as slower than expected sales
 27 hiring,” which “impacted the sales pipeline,” Nutanix’s “management appeared confident that the
 28 problems have been addressed and that the pipeline should build into the fourth quarter, leaving the
 company in a good position to enter fiscal 2020.”

302. In a March 1, 2019 report by JMP, JMP repeated that the money that should have been

¹⁴ NTNIX: Disappointing Results/ Guide As Subscription Transition Accelerations, WELLS FARGO (May 30, 2019).

1 spent on lead generation was deflected to product development:

2 Management under invested in new account lead generation, as the company directed
3 spending to other areas, such as product development. Pipeline generation activities, such
4 as CIO events, digital marketing, branding campaigns, and seminars have been
5 **underfunded**, as greater priority was placed on other business segments. Management
6 suggested it believed it was achieving greater efficiency with expanding the company's
7 brand awareness, as well as greater awareness of HCI (hyper converged infrastructure) in
8 general.

9 303. Following this announcement, on March 11, 2019, Nutanix announced that Louis J.
10 Attanasio, the Chief Revenue Officer of Nutanix, notified the Company that he was leaving, effective
11 March 8, 2019. Commenting on Attanasio's departure, RBC Capital Markets noted in a March 11, 2019
12 Report that "Mr. Attanasio's departure shouldn't be a surprise and was a further fallout from last
13 quarter's poor execution."¹⁵ RBC further commented that Defendant Pandey's appointment to interim
14 CRO "makes a lot of sense given how active he is in the sales process"¹⁶

15 304. On April 9, 2019, Nutanix and HPE announced that they had signed a global agreement
16 to deliver an integrated hybrid cloud as a Service (aaS) solution to the market:

17 This offering will purportedly leverage Nutanix's Enterprise Cloud OS software including
18 its built-in, free AHV hypervisor, delivered through HPE GreenLake to provide customers
19 with a fully HPE-managed hybrid cloud that is supposed to lower total cost of ownership
20 and accelerate time to value. Additionally, as part of the agreement, Nutanix will enable its
21 channel partners to directly sell HPE servers combined with Nutanix's Enterprise Cloud
22 OS software so that customers can purchase an integrated appliance.

23 305. The HPE-Nutanix partnership purports to address business challenges by delivering an
24 "alternative that reduces cost and complexity and providing fully managed hybrid cloud infrastructure
25 delivered as a Service and deployed in customers' data centers or co-location facility."

26 306. Commenting on the partnership, Susquehanna Financial group, LLLP remarked that the
27 partnership indicated that HPE was rather confident in its own software rather than Nutanix's:

28 We are not entirely surprised by this morning's partnership announcement, as we
highlighted the potential for an HPE/NTNX deal in our Enterprise Hardware update on
3/18 (LINK), as well as in our takeaways from NTNX's Analyst Day on 3/21 (LINK). That
said, today's announcement is a bit more nuanced than the OEM deal NTNX possesses
with Dell. Key takeaways include: 1) HPE to incorporate NTNX's software in a fully HPE-

¹⁵ Matthew Hedberg, Nutanix Inc. Thoughts on Nutanix's CRO departure, RBC CAPITAL MARKETS (Mar. 11, 2019).

¹⁶ *Id.*

managed GreenLake solution (consumption model, vs. capex purchase) and 2) *HPE will ship fully integrated appliances with NTNX Software to NTNX channel partners only (to our knowledge, not to HPE channel partners)* - which can make it easier for NTNX's channel to sell HPE/NTNX appliances (rather than have to assemble solutions on their own). *As such, unlike the Dell/NTNX relationship, we believe HPE's salesforce and channel will not offer the HPE/NTNX integrated appliance, but only NTNX's channel will. This suggests to us that HPE remains entirely confident in its Simplivity solution - which is not surprising* given Simplivity's recent share gains in HCI, and our recent checks on 3/5 (LINK) that have pointed to Simplivity gaining traction with DL380 customers. For NTNX, we'd view this news favorably in the N-T, but not materially so, as this partnership does not include a branded HPE product (rather than NTNX "OEM'ing" its SW to HPE, HPE is "OEM'ing" its HW to NTNX's channel), while GreenLake is thus far not sizeable enough to serve as a strong N-T catalyst for NTNX software billings. Both offerings are expected to be available in 3QCY19.

307. This partnership increased access to new logos and sales leverage for Nutanix. Morgan Stanley commented that:

HPE's strong channel presence and 13% unit share / 15% revenue share of the server market in 2018 allows Nutanix to gain access to new customers and improve sales leverage. . . . The HPE partnership is another catalyst in building investor confidence that Nutanix can re-accelerate growth in 1H FY20 after a weak pipeline of new customers drove a miss last quarter and pressured shares 20%+ since earnings.¹⁷

B. Continued Materially False and Misleading Statements in the February 28 Call

308. Despite conceding that Nutanix had significantly underinvested in key marketing and sales activities and personnel, Defendants continued to mislead investors. During the February 2019 Call, Defendant Pandey assured investors that the lack of lead generation spending only **"pushed things a quarter or two"** when, in fact, Nutanix had been observing setbacks and the depletion of its sales pipeline since fiscal 2017. According to Defendant Pandey:

In fiscal 2018 I'm sorry, in fiscal 2017 we had increased lead generation spend by 75% over the prior year. **This increase drove strong pipeline generation of fiscal 2017 and fiscal 2018, as well as improved efficiencies within the lead generation spend during fiscal 2018.**

309. Defendants also falsely claimed Nutanix did not see any issues with its lead generation spend or sales pipeline until Q2 fiscal 2019:

¹⁷ Katy L. Huberty, HPE Partnership Helps NTNX Get Back On Track, MORGAN STANLEY (Apr. 9, 2019).

1 But the company was doing fine in FY 2018 and then we go into FY 2019 and
 2 we have a lot of spending demands and a lot of pressure on spending and a lot
 3 of people looking for leverage, and we made a decision at that point that we
 4 figured those efficiencies would not only continue, but increase in FY 2019 and
 we reallocated spending away from demand gen to a certain degree into headcount.

5 310. The statement above in ¶¶308-09 was materially false and misleading when made
 6 because, unbeknownst to investors: (i) according to CW1 and CW3, Nutanix's pipeline had significantly
 7 declined as of April or May 2018; (ii) according to CW6, Nutanix had been experiencing material
 8 product quality issues with its HCI technology throughout the second half of calendar 2017 and
 9 throughout 2018 causing customers not to buy its products; (iii) according to CW1, starting by at least
 10 mid-summer of calendar 2017, Dell began pushing its own VMware products instead of Nutanix
 11 products and starting in January 2018, Dell changed the compensation structure to pay its salesforce
 12 higher commissions for selling VMware instead of Nutanix products, causing the Company's sales and
 13 pipeline to decline; and (iv) as a result of (i) through (iii) above, Nutanix was not doing "fine" in fiscal
 14 2018 as Defendants falsely represented. Rather, throughout calendar 2018, Nutanix faced serious issues
 15 with its depleting pipeline which, according to CW3, was "pretty dry" by May 2018 and according to
 16 CW3, it was "very obvious" that the pipeline was in trouble by April or May 2018.

17 311. When asked whether Nutanix's financial results were at all being impacted by
 18 competition, Defendant Pandey flatly dismissed the competition and claimed Nutanix's problems were
 19 solely related to internal issues:

20 So right now, we're really thinking about this is an internal issue. I mean we've
 21 looked at our win rates closely and if anything, they've actually had a steady a little
 22 bit of an uptick. Our pipeline conversion rates have actually stayed pretty steady.
 23 We look at our Global 2000 customer base and they continue to buy, this is a record
 24 quarter for us in terms of number of \$1 million deals, number of \$5 million deals,
 25 number of more than \$0.5 million deals. So, many of those things actually point
 26 in the direction of internal stuff as opposed to external. And you know,
 27 competition, I mean, I've talked about this forever on this call and to pretty
 28 much anybody who's willing to hear. There are few things in competitive stuff
that have that change every year. . . Repeat business is way better than three, four
years ago. The brand is bigger. The Gartner Magic Quadrant has been new in the
last couple of years. We used to have Vblock and FlexPod two, three years ago,
and that's been totally dismantled. Our portfolio of the product is much bigger. And
so, when you look at all these things, you are like well, you get some and you
give some. And competitively so I think the waxing and waning of a few things
one way or the other goes on all the time actually.

312. Defendant Pandey also falsely claimed he had not seen any major changes in the competitive landscape or with Nutanix's relationship with Dell:

Victor Chiu

Have you seen any changes in the competitive landscape or secular demand? I know Dell reported results and I haven't had a chance to weigh in on there yet, but I know ACI is an area that they continue to focus on, so, is there any changes in the competitive landscape?

Dheeraj Pandey

Not really, I mean you know, obviously in the last 18 months, our relationship with them has also evolved. Now we meet in the channel and our products look really, really good. I mean, I can tell you that the few things that we feel proud about is being competitive now. Obviously, they are also going and cannibalizing their existing storage business, which comes in the way of things like gross margin and such for them. **But the more they actually go ship VxRail, the better it is for us, because we need like a lot more marketing dollars to be spent on market enablement and education than we can do just on our own.**

313. The statement above in ¶311-12 was materially false and misleading when made because: (i) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and thus had not been providing the Company with any new sales leads; (ii) according to CW1, since the beginning of calendar 2018, Dell had changed its compensation structure to pay higher commissions to its salesforce who sold VMware products; and thus (iii) the biggest reason Nutanix's sales and pipeline had declined were because of Dell was not providing Nutanix with sales leads.

314. On April 22, 2019, Nutanix's Vice President of Global Channel Sales, Rodney Foreman, resigned, after only being at the Company for 15 months.

C. Continued Materially False and Misleading Statements in the May 13, 2019 Interview

315. On May 13, 2019 Defendant Pandey admitted during an interview that Nutanix's poor sales execution problems disclosed on February 28, 2019 included *product quality issues* throughout fiscal 2018, while continuing to falsely assure investors that Nutanix's problems had nothing to do with the competition:

Q: Your revenue growth slowed last quarter and you expect it to slow more this quarter. Does that mean you're facing greater competition in hyper-

convergence?

A: Pandey: **The threats to us have nothing to do with the world outside.** Over the last six to nine months, our shortfall is because of things we are doing internally – **marketing, demand generation, sales execution,** product integration, **product quality.** They’re all internal things. **As long as the market is large, I don’t have a risk from the competition. Most of the risks are from within our company.**¹⁸

316. When specifically asked “[h]ow big of a threat is it that Dell is a leader in servers, virtualization and storage—key pieces of hyper-convergence?” Pandey responded “**I think they have to be careful not to give the other server vendors reason to pause.** VMware is the Switzerland of computing right now. **If they cede that position, we can earn that position.**”

317. The statement above in ¶¶315-16 was materially false and misleading when made because, unbeknownst to investors: (i) according to CW1, since the summer of 2017, Dell had been promoting its own VMware products instead of Nutanix products and thus had not been providing the Company with any new sales leads; (ii) according to CW1, since the beginning of calendar 2018, Dell had changed its compensation structure to pay higher commissions to its salesforce who sold VMware products; and thus (iii) the biggest reason Nutanix’s sales and pipeline had declined were because of Dell was not providing Nutanix with sales leads.

D. Second Partial Disclosure in the May 30, 2019 Press Release

318. On May 30, 2019, after market close, Nutanix issued a press release announcing its financial results for third quarter fiscal 2019 (“May 2019 Press Release”). The Company shocked the market when it revealed that, despite its representations that the lack of lead generation spend and sales hiring would not impact the Company Nutanix, again, failed to meet its revenue targets as a result of these issues. Specifically, Nutanix reported:

Q3 Fiscal 2019 Financial Highlights

- ***Revenue: \$287.6 million (at 77.1% non-GAAP gross margin), down from \$289.4 million (at 68.4% non-GAAP gross margin) in the third quarter of fiscal 2018***
- ***Billings: \$346.0 million, down from \$351.2 million in the third quarter of fiscal 2018***

¹⁸ <https://searchconvergedinfrastructure.techtarget.com/news/252463270/Nutanix-CEO-Wed-love-to-replace-VMware-as-Switzerland>.

- **Net Loss:** GAAP net loss of \$209.8 million, compared to a GAAP net loss of \$85.7 million in the third quarter of fiscal 2018; Non-GAAP net loss of \$103.0 million, compared to a non-GAAP net loss of \$34.6 million in the third quarter of fiscal 2018
- **Net Loss Per Share:** GAAP net loss per share of \$1.15, compared to a GAAP net loss per share of \$0.51 in the third quarter of fiscal 2018; Non-GAAP net loss per share of \$0.56, compared to a non-GAAP net loss per share of \$0.21 in the third quarter of fiscal 2018

319. The fiscal third quarter 2019 results of \$287.6 million in revenue fell well short of Nutanix's revenue target of \$290 to \$300 million set just one quarter before.

320. On May 30, 2019, also after market close, the Individual Defendants held a conference call with analysts to discuss the Company's third quarter 2019 financial results ("May 2019 Call").

321. During the May 2019 Call, Defendant Pandey admitted that the Company's troubles relating to underspending on sales hiring and lead generation were far from over:

Looking back, Q3 was a mixed quarter for us as we delivered better-than-expected gross margins and EPS and strong growth in our subscription-based revenues indicating an acceleration of our business model transition, while also delivering billings and revenue below our guidance range. *As you may recall our guidance last quarter was less than expected as we needed to rebuild our pipeline by doubling down on lead generation and increasing our focus on sales hiring and execution, especially in the Americas.*

* * *

During Q3, we executed well on our strong plan to ramp lead generation and thus improve sales execution.

322. When questioned about the cause of the quarter's disappointing results, Defendant Williams stumbled during his answer, revealing that, despite the Company's representations that it was actively increasing lead and hiring headcount, not much progress had been made:

Alex Kurtz

Yes, thanks, guys for taking a clarification and a question. Just looking back at the quarter, Duston, do you feel like -- you gave a bunch of reasons about what impacted the top-line and billings from the subscription change, I just want to be really clear. Where you guys on plan for the quarter as far as what you expected to hit just from a transaction perspective outside of all these changes that we are doing to subscription.

Duston Williams

Well, *clearly the quarter should've been better overall*, some of this again was impacted. We on the software or the subscription transition, we outperformed what we originally thought by well over 25%. So that clearly had some impacts there. *But clearly, we've got some issues we're working through and the pipeline we said we're going to work on that.* That's up 40% quarter-over-quarter, we said we're

going to work on sales hiring. That's improved substantially quarter-over-quarter, we've got some leadership changes we're working through and that's clearly impacted the Q3 and it will, as I said, impact also Q4.

323. On this news, Nutanix's stock dropped from a closing price of \$32.67 per share on May 30, 2019 to \$28.07 per share on May 31, 2019.

324. Reacting to Nutanix's lower than expected third fiscal quarter earnings, Morgan Stanley downgraded Nutanix from "overweight" to "equal weight" and cut the Company's price target from \$53 to \$37 per share. Morgan Stanley's analyst Katy Huberty cited competitive pressure, particularly from Dell, as one of the key reasons for the rating and stock downgrade.

325. Andrew Nowinski of Piper Jaffray downgraded Nutanix stock from overweight to neutral from \$47 to \$28, noting that *"It is clear this model is unsustainable, requiring massive amounts of spending just to support modest revenue growth, which we believe is attributable to competition."* Nowinski further commented that "[t]he company continues to struggle with execution issues." Brad Reback from Stifel commented that "[c]haos still reigns."

326. On May 30, 2019, Nutanix's Chief Product Development Officer, Sunil Potti, resigned.

VIII. ADDITIONAL SCIENTER ALLEGATIONS

A. The Individual Defendants' Knowledge and/or Recklessness

1. Defendants' Admissions That Nutanix Secretly Decided to Keep Lead Generation Spending Flat and Divert Monies to Engineering and New Product Development for Six Quarters

327. Defendant Pandey expressly admitted in the Company's February 28, 2019 fiscal Q2 quarterly earnings release and during the fiscal Q2 2019 conference call with investors on February 28, 2019 that *"[I]n fiscal 2018, we reallocated some of our lead generation spending to other priorities. As a result, there was a four quarter period from Q4 2017 to Q3 2018 that we basically kept lead generation spend flat"* and in FY 2019 *"we again reallocated capital away from lead generation spend during our planning process."* Defendant Williams further admitted that the amount of spend reallocated was material, stating: "all this shifting of spend to lead generation is *not an insignificant amount*. The magnitude of the shift is *in the few tens of millions*."

328. Defendants' decision to keep lead generation spending flat is in stark contrast to the

Company's actions in prior years and its own public statements about the critical importance of "increasing" such spending. Indeed, in fiscal 2017, Nutanix had increased lead generation spending by 75%. Moreover, as Defendant Williams admits, "[l]ead generation spending is a **key** component to building pipeline, which ultimately impacts bookings, billings and revenue." In other words, the Company's lead generation spend was known by Defendants to be a fact likely to affect the total mix of information that would have been pertinent to Nutanix investors.

329. Yet Defendants did not disclose to investors the Company's decision to keep lead generation spending flat or the materially negative impact that decision was having on Nutanix's sales and pipeline throughout the Class Period.

330. Defendants' express admissions demonstrate their statements that, among others, "we have continually increased our marketing activities related to brand awareness, promotions, trade shows and partner programs" and are "investing aggressively in sales enablement and co-marketing"—all lead generation activities—were materially false and misleading when made, and/or rendered materially misleading by omission, and support a strong inference of scienter.

2. Defendants' Admissions That Nutanix Cut Sales Hiring In Calendar 2018

331. Defendants also effectively admitted that Nutanix had implemented a hiring freeze "the first half of the fiscal [2019] year," resulting in "an under-spend by several million dollars" that also adversely impacted sales and lead generation. This admission rendered Defendants' statements such as Nutanix "significantly increased [its] sales and marketing personnel" and was "continu[ing] to expand our global sales and marketing teams," among others, materially false and misleading when made and/or rendered materially misleading by omission.

332. Moreover, according to CW1, CW2, CW6 and CW7, Nutanix was experiencing, in the context of the technology industry, abnormally significant turnover in its salesforce throughout the Class Period.

333. Defendants' decision to implement a hiring freeze for several quarters was not disclosed to investors until the end of the Class Period.

1 **3. Defendants’ Admissions That Nutanix Sales Personnel Were Not Properly**
 2 **Trained to Sell the Company’s Products, Costing Nutanix Sales as**
 3 **Defendants Purposefully “*Let Chaos Reign*”**

4 334. According to CW4, at the same time Nutanix was understaffed in sales and marketing,
 5 Nutanix was offering too many new software products in 2018 within a very short time period. Thus,
 6 there was not enough time or resources to educate the sales force on each new product or the new
 7 subscription model and Nutanix’s sales team was simply “not built to handle the pipeline” and “general
 8 sales readiness was poor.”

9 335. During the Q2 fiscal 2019 earnings call, Defendant Pandey expressly *admitted* Nutanix
 10 had insufficient sales personnel to properly build the pipeline and close deals (*supra* Section IX.A.2)
 11 and “took too much on in terms of new products in 2018.” Thus, Nutanix’s sales force “[was] a little bit
 12 confused”, which “may have affected the demand gen.”

13 336. According to Pandey “*we let chaos reign in the first half of ’18 with product portfolio*
 14 *in terms of lack of crisp messaging* and then obviously we realized that we had to do a better job of
 15 messaging and classification and things of that nature.”

16 337. Defendants never disclosed to investors during the Class Period that Nutanix’s sales force
 17 lacked the knowledge and capability to sell Nutanix’s new products, resulting in Nutanix being unable
 18 to close sales.

19 **4. Defendants’ Admissions That Nutanix’s HCI Product Quality Suffered as a**
 20 **Result of Reallocating Management’s Focus and Spending to New Products**

21 338. Nutanix also began experiencing product quality issues with its “core” HCI technology
 22 in the second half of 2017 and throughout 2018 as a result of Defendants’ conscious decision to focus
 23 management’s attention and cash flow on developing new products and acquiring new companies to
 24 keep pace with the competition.

25 339. CW6 recalled that such product quality issues included the loss of the “one click upgrade”
 26 functionality and licensing issues. According to CW6, these product quality issues were discussed at
 27 every quarterly QBR meetings attended by Vice Presidents and the COO, David Sangster and every
 28 quarterly All-Hands attended by Defendants Pandey and Williams during CW6’s employment.

340. CW6 recalled that “everyone” in the QBR meetings raised concerns about the product

1 quality going down. According to CW6, “most VPs were aware” of the product quality issues because
 2 customers were not buying the HCI technology.

3 341. As Defendant Pandey would later admit during an interview on May 13, 2019, part of
 4 Nutanix’s sales execution problems from 2018 were, indeed, due to previously undisclosed “*product*
 5 *quality*” issues. Further, KPIs, dashboard reports and other review materials discussing the product
 6 quality issues and presented at the QBRs were stored on a Company shared drive accessible to
 7 Defendants Pandey and Williams.

8 342. Defendants’ admissions rendered their statements that, among others, “[d]emand for our
 9 solutions remains strong” and “[w]e are seeing a ton of demand for [Nutanix platform] and in almost all
 10 of our districts” materially false and misleading when made, and/or rendered them materially misleading
 11 by omission.

12 **5. Defendants’ Knowledge of Declining Sales, Sales Pipeline, and Product**
 13 **Quality Issues from Internal Company Pipeline Reports in Salesforce.com**
 14 **and Clari Systems and Attendance at All-Hands and QBR Meetings**

15 343. Defendants’ regular review of pipeline and sales reports from the Salesforce.com system
 16 and the Clari System, among others, and attendance at meetings where pipeline and product quality
 17 issues were discussed throughout the Class Period supports a strong inference of scienter.

18 344. According to former Nutanix employees, Nutanix had a number of systems and personnel
 19 in finance and sales operations dedicated to tracking the sales pipeline. CW1, CW3, CW5 and CW7
 20 recalled that sales personnel were supposed to report and track their pipeline in Salesforce.com.
 21 According to CW1, Salesforce.com maintained information on potential deals that were in various
 22 stages of development and assigned percentage likelihoods of when they would close. CW5 similarly
 23 recalled that Nutanix used Salesforce.com to track its sales pipeline, including percentage of likelihood
 24 a deal would close and when it would close.

25 345. According to CW1 and CW7, Defendants Pandey and Williams had access to all
 26 reporting in Salesforce.com. CW1 further stated that this witness was confident Defendant Pandey
 27 received the pipeline reports on a weekly basis. Thus, Defendants Pandey and Williams would have
 28 known from the Sales.com pipeline reports that Nutanix’s pipeline was in serious trouble by April or

1 May 2018 when, according to CW3, the pipeline was “pretty dry” and according to CW1, it was “very
2 obvious” Nutanix’s pipeline was in trouble.

3 346. CW1 also recalled a system called Clari to track the quality of Nutanix’s sales pipeline.
4 CW1 stated that Clari obtained its data from Salesforce.com. According to CW1, Defendants Pandey
5 and Williams had access to pipeline reports in Clari.

6 347. CW1 stated that sales personnel expressed serious concerns about Nutanix’s depleted
7 pipeline and inability to generate new leads and close deals at every quarterly All-Hands meeting starting
8 from April or May 2018 throughout the remainder of this witnesses’ tenure with Nutanix. In addition,
9 CW1 recalled that sales personnel raised the issue of Dell not providing any new sales leads at such All-
10 hands meetings, during which Nutanix-employed alliance partners discussed the situation with Dell
11 favoring VMware. CW1 stated that Defendants Pandey and Williams attended all quarterly All Hands
12 meetings during this witnesses’ employment.

13 348. According to CW5, in the two to three weeks leading up to the quarter end, this witness
14 participated in daily update calls, sometimes two times per day, with CW5’s manager and other sales
15 personnel in the region to provide the status of CW5’s pipeline and deals. Thus, sales pipeline was
16 tracked very closely by Nutanix management.

17 349. CW6 stated that in fiscal and calendar 2018, Nutanix also had QBR meetings attended
18 by regional vice presidents and David Sangster, Nutanix’s COO, and quarterly All-Hands meetings
19 attended by Pandey and Williams, during which Nutanix’s product quality issues, including the lack of
20 one-click functionality and licensing issues for the HCI software were discussed. CW6 also recalled
21 various dashboard reports and other materials discussing product quality issues, among other things,
22 were presented at QBR meetings and accessible by all attendees, as well as Nutanix executives such as
23 Defendants Pandey and Williams, on Nutanix’s shared drive.

24 350. Thus, Defendants were aware of Nutanix’s declining sales pipeline and product quality
25 issues throughout the Class Period.
26
27
28

1 **6. Defendants Were Aware that Cutting Lead Generation Spend Would Have**
 2 **A Devastating Effect on Nutanix’s Pipeline and Sales Because They Had**
 3 **Made Similar Cuts in Prior Years, Which Caused the Company’s Pipeline**
 4 **to Become Depleted**

5 351. Defendants were aware that cutting lead generation spend would negatively impact
 6 Nutanix’s sales and pipeline because this same thing admittedly happened in 2016 when Nutanix
 7 reduced its lead generation spend:

8 *[B]ecause in 2016 we had slowed down quite a bit in demand spending too, because of*
 9 *those three quarters of macro issues with China and oil crisis and Brexit and everything.*
 10 *So, 2016 with a slow year for us and then we woke up in 2017 and said, we got to do this*
 11 *thing around demand as well, and that really helped us in 2017 and 2018.*

12 352. Moreover, Defendants knew the ramifications would be even worse given the known loss
 13 of Dell sales and sales leads starting by the summer of in 2017, before the Class Period, that Defendants
 14 observed in Nutanix’s pipeline reports, among other sources.

15 353. Defendants’ prior experience of the consequences of not spending on lead generation
 16 supports scienter.

17 **7. Defendant Pandey Was Aware that Nutanix’s Pipeline Was Materially**
 18 **Declining throughout the Class Period Because He Was a Very “Hands On”**
 19 **CEO, As Confirmed by Nutanix Employees and the Analyst Community**

20 354. Defendants admit in the Company’s SEC filings that they “*regularly monitor billings,*
 21 *adjusted gross profit, adjusted gross margin, free cash flow and non-GAAP operating expenses, which*
 22 *are non-GAAP financial measures and key performance measures, to help us evaluate our growth* and
 23 *operational efficiencies, measure our performance and identify trends in our sales activity,* and establish
 24 our budgets.”

25 355. Moreover, Defendant Pandey had a reputation among the investment community as being
 26 very active in the sales process. For example, after the Class Period, Defendant Pandey was appointed
 27 interim Chief Revenue Officer which, according to RBC Capital Markets analysts, “made a lot of sense
 28 given how active [Pandey] is in the sales process.”

 356. Indeed, CW1 described Defendant Pandey as a “very hands-on CEO” that undoubtedly
 would have been very informed about the status of Nutanix’s sales pipeline, including from weekly
 pipeline reports. CW5 echoed this sentiment, explaining that this witness had, in fact, regularly met with

1 Defendant Pandey about this witnesses' pipeline relating to new customers and sales leads for Global
2 accounts.

3 357. Defendant Pandey's "hands-on" management style supports an inference of scienter.

4 **8. Executive Terminations Support A Strong Inference of Scienter**

5 358. The immediate departures of Nutanix's executive leadership after the truth was revealed
6 further support a strong inference of scienter. Indeed, during the Company's February 28, 2019 investor
7 call, Defendant Pandey revealed that Chris Kaddaras, the current head of the Company's European sales,
8 would be taking over the Americas region to "improve our sales execution," replacing Lautenbach who
9 had started at the Company in November 2017, just one year earlier.

10 359. On March 6, 2019, Attanasio notified Nutanix that he would be leaving Nutanix effective
11 March 8, 2019 "to pursue other opportunities." Attanasio, too, had only been with Nutanix for
12 approximately one year before his termination. Immediately prior to his departure, Attanasio *liquidated*
13 *his entire holdings of Nutanix stock*.

14 360. Following Attanasio's departure, on April 22, 2019, just one week prior to Nutanix
15 announcing another disastrous quarter, Nutanix's Vice President of Global Channel Sales, Rodney
16 Foreman, resigned, after only being at the Company for fifteen months.

17 361. Then, on May 30, 2019, the same day Nutanix reported disappointing fiscal Q3 2019
18 results, Nutanix's Chief Product Development Officer, Sunil Potti, resigned.

19 **B. The Individual Defendants Had Motive to Make Fraudulent Representations**

20 **1. Defendants Were Motivated to Inflate Nutanix's Stock Price to Profit from**
21 **the Sale of Their Personal Holdings of Nutanix Stock**

22 362. The Individual Defendants were motivated to engage in the alleged fraudulent scheme
23 and issue materially false and misleading statements and/or omit material facts throughout the Class
24 Period in order to inflate Nutanix's common stock price and maximize their personal profits from selling
25 their shares of Nutanix stock at inflated prices. Defendants Pandey and Williams' trading patterns
26 before, during, and after the Class Period show that the Defendants' trades were anything but routine
27 and instead were directly motivated by a desire to profit from the fraudulent scheme alleged herein.

28 363. The Company collectively granted Defendants over 2.7 million Nutanix securities (each

exercisable for one share of common stock) that were fully vested prior to the Class Period. Moreover, Defendants collectively owned over 386,000 common shares before the Class Period. Yet, Defendants did not make a single sale until the Class Period. However, during the Class Period, Defendants Pandey and Williams suspiciously sold 704,500 shares, generating proceeds of over \$30.5 million.

364. As further explained below, Defendants' trades were highly unusual both in timing and amount and correlated with market moving events or dates on which the Defendants would likely be in possession of material non-public information. Furthermore, none of Williams' sales were pursuant to a Rule 10b5-1 trading plan.

a. Defendant Pandey's Suspicious Sales

365. During the Class Period, and over a mere four trading days, Defendant Pandey sold 104,500 shares of stock for \$3,721,393 in gross proceeds—or, almost fifteen times his \$250,000 salary in 2017, the same time period he made his sales. Defendant Pandey did not disclose the cost basis for the shares he sold—but given that he founded the Company, such sales reasonably could have resulted in close to 100% profit.

366. Specifically, Pandey was CEO of Nutanix since its inception and did not sell a single share of NTNX common stock until December 7, 2017, when he sold 66,200 shares generating gross proceeds of \$2,339,214.42. The next day, Pandey sold an additional 5,200 shares yielding proceeds of \$183,119.56. Less than two weeks later, on December 19, 2017, Defendant Pandey sold 30,900 shares of common stock, and on December 20, 2017, Pandey sold 2,200 shares of common stock. These last two sales, alone, resulted in proceeds of \$1,199,059.21. Pandey's total Class Period sales represent ***over 35.2% of the total amount of common shares*** he owned prior to December 20, 2017 (his final Class Period sale date).

367. Defendant Pandey's sales described above were strategically timed to occur shortly after the Company announced its first quarter 2018 results on November 30, 2017, which caused Nutanix's stock price to increase 10% from \$32.80 per share at market close on November 30, 2017 to \$36.06 per share on December 1, 2017. During the November 30, 2017 conference call, Defendants Pandey and Williams discussed the Company's first quarter results and touted the Company's hiring that quarter as a basis for Nutanix's positive results. While these statements were perceived by the market as evidence

of the Company's success, unbeknownst to investors, according to CW1 and CW7, Nutanix had engaged in hiring freezes and, according to CW1, CW2, CW6 and CW7, was experiencing significant turnover of its salesforce resulting in the Company being unable to generate new leads and the depletion of the sales pipeline. Moreover, at this time, Dell had been driving all sales leads to VMware, rather than Nutanix, further depleting the Company's sales leads. Rather than sit and wait for this news to become public, Defendant Pandey decided to swiftly sell substantial amounts of his Nutanix holdings before the Company's stock price could be corrected. As a result of the calculated timing of his sales, Defendant Pandey was able to sell his shares while they were still trading above \$35.00 per share, a price at which the Company's stock closed on only eight trading days prior to December 7, 2017 and on only fifteen trading days prior to December 20, 2017.

b. Defendant Williams' Suspicious Sales

368. During the Class Period, over just four trading days, Defendant Williams exercised and sold 600,000 stock options for \$26,846,206.38 in gross proceeds and **\$24,926,206.38 in profits**. These sales represented approximately **51.4% of Williams' vested and exercisable stock options** owned prior to June 1, 2018 (his final Class Period sale date), and the profits were almost **one hundred times** Williams' \$250,000 salary in 2017 and **more than seventy times** his 2018 annual salary of \$350,000. None of Williams' sales were pursuant to a 10b5-1 trading plan.

369. Defendant Williams' trading history is nearly identical to Defendant Pandey's—albeit, on a larger scale. Defendant Williams served as CFO since Nutanix's inception. Like Pandey, Williams did not sell a single share of NTNX common stock until December 14, 2017, when he exercised and sold 150,000 stock options, generating gross proceeds of \$5,309,430 and profits of \$4,829,430. The next day, Williams sold an additional 150,000 shares resulting in proceeds of \$5,200,200, and profits of \$4,819,200. These two sales represented approximately 28.4% of Defendant Williams' vested stock options and generated a profit of **over thirty-eight and a half times his \$250,000 salary in 2017** when these sales occurred. As discussed above, these sales were strategically timed to occur following the announcement of positive first quarter 2017 results but prior to the Company's corrective disclosures.

370. On May 31, 2018, Williams exercised and sold 167,600 stock options, generating \$8,976,421.36 in gross proceeds and \$8,440,101.36 in profits. The following day, Williams exercised

and sold 132,400 stock options, resulting in \$7,261,155.02 in proceeds and \$6,837,475.02 in profits. The profits from Williams’ sales described in this paragraph were more than ***forty times his \$350,000 salary in 2018***. Williams’ May and June 2018 sales were strategically timed to occur shortly after the Company’s May 24, 2018 third quarter 2018 earnings announcement falsely stating Nutanix had “strong success in [] hiring” with “relentless focus on [] customers” resulting in “continued gross margin expansion.” Unbeknownst to investors, at this time, according to CW3, Nutanix’s pipeline was “pretty dry” and, according to CW1, it was “very obvious” that the pipeline was significantly depleted. Moreover, the Company was experiencing product quality issues with its “core” HCI technology.

371. Notably, Defendant Williams’ sales were made contemporaneous to Nutanix’s then historical high point—\$59.13 at close of business on May 10, 2018.

c. Additional Insider Sales by Nutanix’s Officers and Directors

372. The Individual Defendants were not the only Nutanix insiders to suspiciously capitalize on the Company’s artificially inflated stock price.

373. Within days of Pandey’s and Williams’ sales in December 2017, Michael Scarpelli, a member of Nutanix’s Board of Directors since December 2013 and Chairman of the Audit Committee, sold Nutanix shares for the first time. On December 7, 2017 (the same day as Pandey’s first sale), Scarpelli exercised and sold 55,300 stock options for \$1,944,613.44 in gross proceeds and \$1,829,036.44 in profits. On December 11, 2017, Scarpelli exercised and sold 94,700 stock options for \$3,407,523.81 in gross proceeds and \$3,209,600.81 in profits. And on June 20, 2018, shortly after the Company filed the June 2018 Form 10-Q, Scarpelli exercised and sold 50,000 stock options for \$3,049,465 in gross proceeds and \$2,944,965.00 in profits. Prior to June 20, 2018, the only days that the Company’s stock price closed at a higher price than it did on June 20, 2018, ***were the immediately preceding six trading days*** (i.e., June 12, 2018 through June 19, 2018). Collectively, Scarpelli’s Class Period sales comprised 200,000 shares (or 73% of Scarpelli’s pre-Class Period vested and exercisable stock options), resulted in over \$8,401,602 in gross proceeds and totaled approximately \$7,983,602 in profits. None of these sales were pursuant to a 10b5-1 trading plan, and Scarpelli did not have any pre-Class Period stock sales.

374. On December 19, 2018, in midst of the Company’s all-out war with VMware and in advance of the first partially corrective disclosure, Attanasio sold ***his entire holdings*** in Nutanix stock,

consisting of 134,499 common shares. From these sales, Attanasio realized gross proceeds totaling \$5,559,951.34. Attanasio never reported selling Nutanix shares prior to the sales described in this paragraph.

375. Shortly thereafter, on December 28, 2018, Nutanix's Chief Legal Officer, Tyler Wall, sold 34,144 common shares (representing 99% of his entire holdings in Nutanix stock at the time), for proceeds totaling \$1,378,113.30. On March 25, 2019, before Defendants fully corrected their fraud premium, Wall sold an additional 12,132 common shares (representing 95% of his holdings at the time) for proceeds of \$500,146.55. None of Wall's Class Period sales were pursuant to a 10b5-1 trading plan. Wall never reported selling Nutanix shares prior to the sales described in this paragraph.

376. Throughout the Class Period, as set forth in the table below, Nutanix's non-Defendant officers and Board of Directors collectively sold **1,455,934** shares of NTNX common stock generating gross proceeds of **\$64,691,204.85**.

Name, Title	Date Sold	Quantity Sold	Gross Proceeds
Michael Scarpelli, Director	12/7/2017	55,300	\$1,944,613.44
	12/11/2017	94,700	\$3,407,523.81
	6/20/2018	50,000	\$3,049,465.00
Total:		200,000	\$8,401,602.25
Lou Attanasio, Chief Revenue Officer	12/19/2018	95,314	\$3,926,822.42
	12/19/2018	39,185	\$1,633,128.92
	Total:	134,499	\$5,559,951.34
Tyler Wall, Chief Legal Officer	12/28/2018	34,144	\$1,378,113.30
	3/25/2019	12,132	\$500,146.55
	Total:	46,276	\$1,878,259.85
Sudheesh Nair Vadakkedath, President	12/11/2017	50,000	\$1,750,500.00
	12/12/2017	40,000	\$1,425,200.00
	12/26/2017	50,000	\$1,717,500.00
	1/8/2018	40,000	\$1,474,800.00
	1/22/2018	40,000	\$1,420,800.00
	2/5/2018	40,000	\$1,214,000.00
	2/20/2018	40,000	\$1,357,600.00
	3/5/2018	40,000	\$1,549,200.00
	3/19/2018	40,000	\$2,094,800.00
	4/2/2018	40,000	\$1,931,200.00
	4/16/2018	40,000	\$2,143,200.00
	5/7/2018	40,000	\$2,167,600.00
	5/21/2018	40,000	\$2,340,400.00

	6/4/2018	20,000	\$1,128,868.00
	6/18/2018	20,000	\$1,213,200.00
	7/6/2018	40,000	\$2,074,000.00
Total:		620,000	\$27,002,868.00
David Sangster, Executive Vice President, Operations	12/15/2017	5,892	\$213,995.67
	3/12/2018	40,049	\$1,987,695.95
	3/13/2018	27,422	\$1,390,325.56
	3/14/2018	32,611	\$1,674,144.38
	3/15/2018	6,625	\$348,859.91
	3/15/2018	4,900	\$262,453.80
	4/2/2018	7,017	\$336,374.63
	4/2/2018	900	\$43,923.96
	5/1/2018	5,088	\$258,105.08
	5/1/2018	2,829	\$146,339.64
	6/1/2018	2,529	\$137,591.26
	6/1/2018	1,801	\$99,843.30
	6/1/2018	3,586	\$202,978.00
	6/19/2018	700	\$42,024.01
	6/19/2018	5,084	\$310,124.51
	6/19/2018	2,582	\$159,094.58
	6/19/2018	500	\$31,474.00
	7/2/2018	1,133	\$57,689.30
	7/2/2018	5409	\$279,100.61
	7/2/2018	1375	\$71,869.05
	8/1/2018	7,417	\$365,634.37
	8/1/2018	500	\$24,914.00
	9/4/2018	2,000	\$109,886.00
	9/4/2018	5,916	\$331,420.24
	9/18/2018	1,500	\$73,696.05
	9/18/2018	6,771	\$338,173.53
	9/18/2018	100	\$5,057.00
	10/1/2018	7,617	\$331,344.07
	10/1/2018	300	\$13,236.51
	11/1/2018	2,001	\$82,845.20
	11/1/2018	2,500	\$106,037.00
	11/1/2018	3,415	\$148,036.84
	12/3/2018	7,317	\$325,974.55
	12/3/2018	500	\$22,766.00
	12/3/2018	100	\$4,665.00
	12/19/2018	3,211	\$128,836.56
	12/19/2018	4,598	\$190,018.79
	12/19/2018	300	\$12,540.00
	1/2/2019	3,150	\$130,559.63
	1/2/2019	4,767	\$200,088.15
	2/1/2019	7,716	\$398,516.74
	2/1/2019	200	\$10,419.00

	3/11/2019	7,017	\$252,028.19
	3/11/2019	900	\$32,922.99
Total:		237,845	\$11,693,623.61
Sunil Patel, Chief Product and Development Officer	12/15/2017	14,300	\$510,352.70
	12/15/2017	700	\$25,176.97
Total:		15,000	\$535,529.67
Kenneth Long, Vice President, Corporate Controller and Chief Accounting Officer	1/2/2018	60,000	\$2,151,930.00
	3/14/2018	32,002	\$1,739,657.52
	4/4/2018	30,000	\$1,506,513.00
	6/13/2018	30,000	\$1,901,007.00
Total:		152,002	\$7,299,107.52
Steven Gomo, Director	9/14/2018	5,312	\$278,908.68
Total:		5,312	\$278,908.68
John McAdam, Director	9/10/2018	8,146	\$416,666.27
	9/10/2018	6,854	\$355,262.70
	12/3/2018	12,967	\$577,351.78
	12/3/2018	1,933	\$87,409.68
	12/3/2018	100	\$4,653.00
	3/20/2019	15,000	\$600,010.50
Total:		45,000	\$2,041,353.93
Non-Defendant Totals:		1,455,934	\$64,691,204.85

2. Defendants Were Motivated to Inflate Nutanix's Stock Price to Use the Company's Stock as Currency for Acquisitions

377. Desperate to catch up with the competition, particularly in light of the lost business and sales from Dell, Nutanix acquired two cloud-based companies to expand into the public cloud primarily using the Company's inflated stock price as currency.

378. On March 22, 2018, Nutanix completed the acquisition of Netsil to accelerate its ability to deliver native multi-cloud operations with the addition of application discovery and operations

1 management. The aggregate purchase price of approximately \$63.8 million consisted of approximately
2 \$3.7 million in cash and 1,206,364 unregistered shares of Nutanix Class A common stock with an
3 aggregate fair value of approximately \$63.8 million. The fair value of the shares of common stock issued
4 was determined to be \$52.87 per share, the closing price of Nutanix stock on March 22, 2018.

5 379. The acquisition of Netsil technology was used to launch “Flow,” a software-defined
6 network solution designed to provide application-centric micro-segment security services to protect
7 against threats not protected by traditional network firewalls. The launch of Flow was announced at the
8 2018 .NEXT conference.

9 380. Then, on August 24, 2018, while Xi was still not commercially released, Nutanix
10 completed the acquisition of Frame to provide a cloud-based Windows desktop and application delivery
11 service. The aggregate preliminary purchase price of approximately \$130.0 million consisted of
12 approximately \$26.7 million in cash and 1,807,576 shares of Nutanix Class A common stock, with an
13 aggregate fair value of approximately \$103.0 million. The fair value of the shares of common stock
14 issued was determined to be \$56.97 per share, the closing price of Nutanix stock on August 24, 2018.

15 381. Defendants were able to use inflated Nutanix stock prices to make two key acquisitions
16 needed to compete against VMware and others.

17 382. Furthermore, using stock as currency with respect to the acquisitions provided a way of
18 limiting the Company’s cash outlay which is one of a two components of the “Rule of 40”—a popular
19 performance metric for technology startups that industry analysts would have considered material. The
20 Rule of 40 says that the revenue growth rate of a company, *plus the free cash flow* as a percent of
21 revenue should equal at least 40. Defendant Williams boasted about Nutanix’s compliance with the
22 Rule of 40 on the conference calls that occurred on May 25, 2018, and on August 30, 2018—i.e., the
23 Company’s investor calls both immediately preceding and following the announcement of the Frame
24 acquisition. By substituting stock for cash in the Class Period acquisitions, Defendants averted: (i)
25 actually violating the Rule of 40, and/or (ii) hostile investor inquiry related to actual or potential Rule
26 of 40 violations.

3. Defendants Were Motivated to Inflate Nutanix's Securities Prices to Conduct Public Offerings of Nutanix Securities

383. Defendants were motivated to inflate the Company's securities prices during the Class Period in order to raise desperately needed cash to continue funding operations while Nutanix scrambled to get its Xi Cloud Services and other software products on the market to be able to compete on the public cloud.

384. In particular, in January 2018, Nutanix issued Convertible Senior Notes with a 0% interest rate for an aggregate principal amount of \$575.0 million, due in 2023. The total net proceeds from this offering, after deducting the initial purchasers' discount of approximately \$10.8 million, were approximately **\$564.2 million**.

385. Nutanix needed the proceeds to fund R&D so the Company could develop its public cloud product, Xi Cloud Services, which had been plagued with engineering issues causing massive delays in its launch and acquire other software products to transition Nutanix to an all software Company. Indeed, throughout the Class Period, Nutanix was expending a significant amount of monies on new product development as demonstrated by the increase in research and development expense: Nutanix's R&D expense nearly **tripled** from fiscal 2016 to fiscal 2018, increasing from \$116 million in fiscal 2016 to \$314 million in fiscal 2018. CW2 confirmed that during this witnesses' employment in 2018, Nutanix "overinvested" in R&D.

386. Moreover, as discussed above, Nutanix spent \$49.20 million in cash on the acquisitions of Frame on August 24, 2018 (\$26.7 million), Minjar on March 16, 2018 (\$18.8 million) and Netsil on March 22, 2018 (\$3.7 million).

387. Thus, Nutanix desperately needed cash at the beginning of fiscal 2018 to continue funding operations and investing in its software products to compete. Indeed, as Andrew Nowinski of Piper Jaffray commented, "[i]t is clear this model is unsustainable, requiring massive amounts of spending just to support modest revenue growth, which we believe is attributable to competition."

IX. LOSS CAUSATION/ECONOMIC LOSS

388. During the Class Period, the Individual Defendants materially misled the investing public, thereby inflating the price of Nutanix's common stock and/or maintaining the artificial inflation

1 in the stock price, by publicly issuing materially false and/or misleading statements and omitting to
2 disclose material facts necessary to make their own statements, as set forth herein, not materially false
3 or misleading. Said statements and omissions were materially false and/or misleading in that they failed
4 to disclose materially adverse information and/or misrepresented the truth about Nutanix's business,
5 operations, and prospects as alleged herein.

6 389. At all relevant times, the material misrepresentations and omissions particularized in this
7 Complaint directly or proximately caused or were a substantial contributing cause of the damages
8 sustained by Plaintiffs and the other members of the Class. As described herein, during the Class Period,
9 Defendants named in this Action made or caused to be made a series of materially false or misleading
10 statements concerning Nutanix's business prospects. Defendants' statements were materially false and
11 misleading in that the Company kept sales and marketing lead spending flat for more than a year, did
12 not invest in hiring the necessary sales personnel, experienced significant product quality issues with its
13 HCI technology and had stopped receiving new leads from Dell since the summer of calendar 2017,
14 which resulted in a severely depleted pipeline and the failure to generate revenue and profits through
15 sales. These material misstatements or omissions had the cause and effect of creating in the market an
16 unrealistically positive assessment of the Company and its well-being and prospects, thus causing the
17 Company's stock to be overvalued and artificially inflated at all relevant times. The materially false or
18 misleading statements made by Defendants during the Class Period resulted in Plaintiffs and other
19 members of the Class purchasing the Company's stock at artificially inflated prices, thus causing the
20 damages complained of herein.

21 390. As the Defendants' misrepresentations and fraudulent conduct were disclosed and
22 became apparent to the market, the artificial inflation in the price of Nutanix shares was removed, and
23 the price of Nutanix shares fell over a series of two corrective disclosure.

24 391. On February 28, 2019 after market close, Nutanix announced the Company had missed
25 its forecasts by 15% due to an admitted underspending of lead generation and sales hiring since Q4 fiscal
26 2017 through Q2 fiscal 2019. Upon the news, the price of Nutanix common stock declined from a closing
27 price of \$50.09 per share on February 28, 2019 to a close of \$33.70 per share on March 1, 2019.

28 392. Market analysts for the Company attributed the missed forecasts to reasons directly

related to the Defendants' misrepresentations. For example, in three March 1, 2019 reports:

- Oppenheimer explained that “we think Nutanix has tried to do too much (massive portfolio expansion, cloud rollout, M&A, etc.) with too little (under investment in sales/go-to-market) for too long (recent year) and this has caught up with it.”
- Susquehanna Financial Group identified that “the competitive landscape in HCI has intensified and NTNX likely lost share” in significant part because “Dell [was] integrating more tightly with VMW (suggesting more aggressive VxRail strategy, and possibility of not renewing NTNX OEM deal).”
- William Blair explained that in addition to “management’s explanation,” i.e., the Company’s admittedly insufficient pipeline investment, this analyst believed “sales execution” was a large issue during the Class Period and that such sales execution “has been disrupted by three major events: 1) the business model shift from hardware to software, 2) the model shift from license to subscription, and 3) the launch of a dozen or so new products on top of the core HCI offering. Taken together, we believe these events have to some extent overwhelmed the salesforce, impacting productivity and efficiency and impairing new customer acquisition. *We believe these issues must have been building up for several quarters*, and in this past quarter they came to a head, as seen by the dramatically reduced pipeline.”

393. On May 30, 2019, Defendants issued a second corrective disclosure. The second corrective disclosure stated Nutanix missed revenue and billing targets to a nature and extent greater than let onto after the end of Q1 2019, due to a continued insufficient sales pipeline and hardware issues. On this news, Nutanix’s stock dropped from a closing price of \$32.67 per share on May 30, 2019 to \$28.07 per share on May 31, 2019.

394. As a result of their purchases of Nutanix securities during the Class Period at artificially inflated prices, Plaintiffs and other members of the Class suffered economic loss, i.e., damages, under the federal securities laws when the price of Nutanix stock declined as a result of the market obtaining new Company-specific information that revealed or began to reveal to the market the falsity of the statements Plaintiffs allege were materially false and misleading. The timing and magnitude of the price decline in Nutanix common stock negate any inference that the loss suffered by Plaintiffs and Class members was caused by changed market conditions, macroeconomic or industry factors, or Company-specific facts unrelated to Defendants’ fraudulent conduct.

X. NO SAFE HARBOR

395. The statutory safe harbor provided for forward-looking statements under certain

circumstances does not apply to any of the allegedly false statements pleaded in this complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions.

396. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as “forward-looking statements” when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements.

397. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of Nutanix who knew that the statement was false when made.

XI. APPLICABILITY OF THE PRESUMPTION OF RELIANCE AND FRAUD ON THE MARKET

398. Plaintiffs are presumed to have relied on Defendants’ misrepresentations and omissions under the fraud-on-the-market doctrine. At all times, the market for the Company’s stock was an efficient market that promptly digested current information related to the Company from all publicly available sources and reflected such information in the prices of the Company’s stock. Throughout the Class Period:

- a. Nutanix’s common stock was actively traded on the NASDAQ;
- b. The market price of Nutanix common stock reacted promptly to the dissemination of public information regarding the Company;
- c. The Company’s stock was followed by financial analysts, including those cited in this Complaint;
- d. As a regulated issuer, Nutanix filed with the SEC periodic public reports during the Class Period;
- e. Nutanix regularly communicated with public investors via established market communication mechanisms; and

1 f. According to the Company's Form 10-K for the fiscal year-ended July 31, 2018, as of
2 August 31, 2018, Nutanix had 135.14 million shares outstanding and the market
3 capitalization of unaffiliated shares as of January 1, 2018 was approximately \$3.6 billion.

4 399. Throughout the Class Period, the Company was consistently followed by the market
5 participants, including securities analysts. The market relies upon the Company's financial results and
6 management to accurately present the Company's financial results. During this period, Nutanix and the
7 Individual Defendants continued to pump materially false and misleading information into the
8 marketplace regarding the Company and its large-scale projects. This information was promptly
9 reviewed and analyzed by analysts and institutional investors and assimilated into the price of the
10 Company's common stock.

11 400. As a result of the misconduct alleged herein, including Defendants' materially false and
12 misleading statements and omissions, the market for Nutanix's common stock was artificially inflated.
13 Under such circumstances, the presumption of reliance available under the "fraud-on-the-market" theory
14 applies. Thus, Class members are presumed to have indirectly relied upon the misrepresentations and
15 omissions for which Defendants are responsible.

16 401. Plaintiffs and the other Class members justifiably relied on the integrity of the market
17 price for the Company's common stock and were substantially damaged as a direct and proximate result
18 of their purchases of Nutanix common stock at artificially inflated prices and the subsequent decline in
19 the price of that common stock when the truth was disclosed.

20 402. Plaintiffs and the other Class members are also entitled to a presumption of reliance under
21 *Affiliated Ute Citizens v. United States*, 406 U.S. 128 (1972) because claims asserted in this Complaint
22 against Defendants are also predicated upon omissions of material fact for which there was a duty to
23 disclose.

24 403. Had Plaintiffs and the other members of the Class known of the material adverse
25 information not disclosed by Defendants or otherwise been aware of the truth behind Defendants'
26 material misstatements, they would not have purchased Nutanix's common stock at artificially inflated
27 prices.

XII. CLASS ACTION ALLEGATIONS

404. Plaintiffs bring this action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a class of all persons or entities that purchased or otherwise acquired Nutanix securities between November 30, 2017 and May 30, 2019, inclusive, seeking to pursue remedies under the Securities Act and Exchange Act (the “Class”). Excluded from the Class are Nutanix and its subsidiaries and affiliates, the Individual Defendants, and any of Defendants’ or Nutanix’s respective officers and directors at all relevant times, and any of their immediate families, legal representatives, heirs, successors, or assigns, and any entity in which any Defendant has or had a controlling interest.

405. Because Nutanix’s stock was actively traded on the NASDAQ, the members of the Class are so numerous that joinder of all Class members is impracticable. While the exact number of Class members is unknown at this time and can only be ascertained through discovery, Plaintiffs believe that there are hundreds or thousands of Class members. Members of the Class may be identified from records maintained by Nutanix or its transfer agent and may be notified of the pendency of this action by mail, using forms of notice customarily used in securities class actions, or by other reasonable ways as may be approved by the Court. According to the Company’s Form 10-K for the fiscal year-ended July 31, 2018, as of August 31, 2018, Nutanix had 135.14 million shares of common stock outstanding.

406. Plaintiffs’ claims are typical of those of the other members of the Class, as all Class members have been similarly affected by Defendants’ wrongful conduct as alleged herein. Moreover, Plaintiffs will fairly and adequately protect the interests of the other members of the Class and has retained counsel competent and experienced in class action and securities litigation.

407. Common questions of law and fact exist as to all Class members and predominate over any questions solely affecting individual Class members. These common questions include:

- g. Whether Defendants violated the federal securities laws as alleged herein;
- h. Whether Defendants’ statements to the investing public during the Class Period misrepresented material facts about Nutanix’s business and operations;
- i. Whether Defendants’ public statements to the investing public during the Class Period omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

- j. Whether the Individual Defendants caused Nutanix to issue materially false and misleading SEC filings and public statements during the Class Period;
- k. Whether Defendants acted knowingly or recklessly in issuing materially false and misleading SEC filings and public statements during the Class Period;
- l. Whether the prices of Nutanix common stock during the Class Period was artificially inflated because of the Defendants' conduct complained of herein; and
- m. Whether price of Nutanix common stock declined as the market became aware of Company specific news which revealed the truth or began to reveal the truth regarding the materially false and misleading statements made by Defendants; and
- n. Whether the members of the Class have sustained damages and, if so, the proper measure of damages.

408. A class action is superior to all other available methods for the fair and efficient adjudication of this matter as joinder of all Class members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for Class members to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

COUNT I

For Violation of §10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against All Defendants

409. Plaintiffs reallege each allegation as if fully set forth herein.

410. This claim is brought under §10(b) of the Exchange Act, 15 U.S.C. § 78j(b) and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5, against Nutanix, Pandey, and Williams.

411. The Defendants: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact and/or omitted material facts necessary to make the statements made not misleading; and (c) engaged in acts, practices and a course of business which operated as a fraud and deceit upon Plaintiffs and the Class, in violation of §10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

1 412. The Defendants individually and in concert, directly and indirectly, by the use, means or
2 instrumentalities of interstate commerce and/or the mails, engaged and participated in a continuous
3 course of conduct to conceal non-public, adverse material information about the Company's outlook
4 and condition, as reflected in the misrepresentations and omissions set forth above.

5 413. The Defendants acted with scienter in that they knew that the public documents and
6 statements issued or disseminated in the name of the Company were materially false and misleading;
7 knew that such statements or documents would be issued or disseminated to the investing public; and
8 knowingly and substantially participated or acquiesced in the issuance or dissemination of such
9 statements or documents as primary violations of the securities laws. These defendants by virtue of their
10 receipt of information reflecting the true facts of the Company, their control over, or receipt or
11 modification of the Company's allegedly materially misleading statements, or their associations with
12 the Company which made them privy to confidential proprietary information concerning the Company,
13 participated in the fraudulent scheme alleged herein.

14 414. The Individual Defendants, who are the senior officers or directors of the Company, had
15 actual knowledge of the material omissions and/or the falsity of the material statements set forth above,
16 and intended to deceive Plaintiffs and the other members of the Class, or, in the alternative, acted with
17 reckless disregard for the truth when they failed to ascertain and disclose the true facts in the statements
18 made by them, or other personnel of the Company to members of the investing public, including
19 Plaintiffs and the other members of the Class.

20 415. As a result of the foregoing, the market price of Nutanix stock was artificially inflated
21 during the Class Period. In ignorance of the falsity of the Company's and the Individual Defendants'
22 statements, Plaintiffs and the other members of the Class relied on the statements described above or the
23 integrity of the market price of Nutanix stock during the Class Period in purchasing Nutanix stock at
24 prices that were artificially inflated as a result of the Company's and the Individual Defendants' false
25 and misleading statements.

26 416. Had Plaintiffs and the other members of the Class been aware that the market price of
27 Nutanix's stock had been artificially inflated by the Company's and the Individual Defendants'
28 materially misleading statements and by the material adverse information which the Company's and the

Individual Defendants did not disclose, they would not have purchased Nutanix's stock at the artificially inflated prices that they did, or at all.

417. As a result of the wrongful conduct alleged herein, Plaintiffs and the other members of the Class have suffered damages in an amount to be established at trial.

418. By reason of the foregoing, the Defendants have violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the Plaintiff and the other members of the Class for substantial damages which they suffered in connection with their purchases of Nutanix stock during the Class Period.

COUNT II

For Violation of §20(a) of the Exchange Act Against All Defendants

419. Plaintiffs realleges each allegation as if fully set forth herein.

420. This claim is brought under §20(a) of the Exchange Act, 15 U.S.C. § 78t, against Defendants Pandey and Williams.

421. The Individual Defendants, by reason of their status as senior executive officers or directors of Nutanix, directly or indirectly, controlled the conduct of the Company's business and its representations to Plaintiffs and the Class, within the meaning of §20(a) of the Exchange Act. The Individual Defendants directly or indirectly controlled the content of the Company's SEC statements and press releases related to Plaintiffs and the Class' investments in Nutanix common stock within the meaning of §20(a) of the Exchange Act. Therefore, the Individual Defendants are jointly and severally liable for the Company's fraud, as alleged herein.

422. The Individual Defendants controlled and had the authority to control the content of the Company's SEC statements and press releases. Because of their close involvement in the everyday activities of the Company, and because of their wide-ranging supervisory authority, the Individual Defendants reviewed or had the opportunity to review these documents prior to their issuance or could have prevented their issuance or caused them to be corrected.

423. The Individual Defendants knew or recklessly disregarded the fact that Nutanix's representations were materially false and misleading and/or omitted material facts when made. In so

1 doing, the Defendants did not act in good faith.

2 424. By virtue of their high-level positions and their participation in and awareness of
3 Nutanix's operations and public statements, the Individual Defendants were able to and did influence
4 and control Nutanix's decision-making, including controlling the content and dissemination of the
5 documents that Plaintiffs and the Class contend contained materially false and misleading information
6 and on which Plaintiffs and the Class relied.

7 425. The Individual Defendants had the power to control or influence the statements made
8 giving rise to the securities violations alleged herein, and as set forth more fully above.

9 426. As set forth herein, the Individual Defendants each violated §10(b) of the Exchange Act
10 and Rule 10b-5, thereunder, by their acts and omissions as alleged herein. By virtue of their positions as
11 controlling persons, the Individual Defendants are also liable pursuant to §20(a) of the Exchange Act.

12 427. As a direct and proximate result of the Individual Defendants' wrongful conduct,
13 Plaintiffs and the Class suffered damages in connection with their purchase of Nutanix common stock.

14 **PRAYER FOR RELIEF**

15 **WHEREFORE**, Plaintiffs prays for relief and judgment, as follows:

16 A. Determining that the instant action may be maintained as a class action under Rule 23 of
17 the Federal Rules of Civil Procedure, certifying Plaintiffs as the Class representatives;

18 B. Against Defendants, jointly and severally, requiring Defendants to pay damages
19 sustained by Plaintiffs and other members of the Class by reason of the acts and transactions alleged
20 herein;
21

22 C. Awarding Plaintiffs and the other members of the Class prejudgment and post-judgment
23 interest, as well as their reasonable attorneys' fees, expert fees and other costs; and

24 D. Awarding such equitable/injunctive or other relief in Plaintiffs' favor as the Court may
25 deem just and proper.
26

27 **JURY DEMAND**

28 In accordance with Federal rule of Civil Procedure 38(b), Plaintiffs demand a jury trial of all

1 issues involved, now, or in the future, in this action.

2 DATED: September 9, 2019

LEVI & KORSINSKY, LLP

3 /s/ Shannon L. Hopkins

4 Shannon L. Hopkins

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